



Is Good Governance Necessary for Good Development?

An Analysis of Development Projects Performance and Government Effectiveness Using Macro Data

Ayesha Urooj

Supervisor: Daniela Lorio, European University Institute

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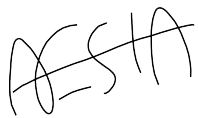
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Abstract

This study analyses the relationship between development aid and good governance in almost 150 countries in Africa, Asia, Europe, and South America from 2000 to 2020. It uses a quantitative research method to analyse if variation in government effectiveness in a country influences the probability of success of a development project implemented there. The data set used to carry out the empirical analysis consists of project performance ratings and government effectiveness percentile ranks taken from World Bank Data Repository. The results show that when we control for country fixed effects, which exploit within country variation, a statistically significant relationship exists between the project outcome and the effectiveness of government. These results have relevant policy implications for the framework of international development, which has echoes of post-colonial and post-imperial mindset as per modern theories of development. The results exploiting variation in projects within country, instead of across countries, suggest that the international development aid framework may be revised. The study aims to contribute to the existing literature on development. Specifically, using data from a large set of countries, the results of this project reinforce the findings established by the existing empirical literature suggesting that good governance has significant impact on international development efforts.

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1. Introduction

Poverty alleviation started as an idea around the 18th century and saw its boom in the 19th century when poverty fell substantially in Western Europe and North America (Ravallion, 2020).¹ After the first and second world wars, international development and finance institution played a pivotal role in the reconstruction of war-torn Europe. The success of the international development projects coupled with rapid industrialisation in the now-developed economies gave rise to the idea that the model could be replicated across developing economies to achieve the same results. There is certainly a critique of the application of this model by post-development theorists. Post-development theory argues that development cannot be achieved using the same model in the global south as it was achieved in the global north. Developed economies achieved their current economic status through colonial exploits and international development is an extension of a neo-colonialist structure. Furthermore, each country has a different context and there cannot be a one size fits all solution to solving development issues (McGregor, 2009).²

However, international development is still a top priority on the agenda of international world order. The main justification could be that the international development efforts have brought down extreme poverty levels significantly in the past few decades (Hasell et al., 2022).³ Increasing the intensity of such efforts and customizing them to ground realities of poor economies to yield better outcome takes up a larger context of the current debate in international development.

¹ Ravallion, M. (2020). On the Origins of the Idea of Ending Poverty (Working Paper No. 27808). National Bureau of Economic Research. <https://doi.org/10.3386/w27808>

² McGregor, A. (2009). New Possibilities? Shifts in Post-Development Theory and Practice. *Geography Compass*, 3(5), 1688–1702. <https://doi.org/10.1111/j.1749-8198.2009.00260.x>

³ Hasell, J., Roser, M., Ortiz-Ospina, E., & Arriagada, P. (2022). Poverty. *Our World in Data*. <https://ourworldindata.org/poverty>

In recent years, the focus has also shifted towards making aid more sustainable. United Nations Sustainable Development Goals (SDG) have become synonymous with international development. Sustainability in development endeavours to create outcomes that can be sustained over time for current generations, without compromising the resources available to meet the needs of future generations. Each time a development project is implemented, it is important that it can generate long-term impact and can sustain itself after the assistance is withdrawn (Sustainable Development, n.d.).⁴ Therefore, measuring the outcome of implemented development projects has increasingly become the norm, generating an entire field of program evaluation of interventions.

Making aid sustainable also brings about the issue of governance. It has been well established that good governance is necessary for the success of development projects. Good governance is defined as certain conditions that state must provide in an aid recipient country for the development project to show results. These conditions include Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption (Massimo, n.d.). However, the good governance indicators have recently received criticism for being irrelevant to the outcome of development efforts and a tool of policy coercion on poor economies (World Bank on Governance: A Critique on JSTOR, n.d.).⁶

Developing and least developed economies are usually marked by weak governance indicators as well but receive substantial amounts of international aid and constitute a fair share of the geographical locations where international development projects are implemented. It is important to learn how effective or ineffective aid becomes in such a scenario. That is why this literature review focuses on research papers that investigate the effectiveness of aid activities on a global level. The goal of this work is to investigate how much aid conditionality, such as good governance, influences the effectiveness of aid and the probability of success of

development projects, such as EXAMPLES. It is important to study the role of development aid conditionality because it offers useful insights into how to build practices that can result in more effective project.

1.1 Research Question

Based on these considerations, I empirically examine the association between aid-conditionality and performance of development aid projects in a large set of countries. In this work, the aid conditionality is limited to the condition of good governance in the aid recipient country. Project performance is categorized as a project being successful or unsuccessful.

1.2 Contribution

The literature on development aid and aid conditionality has mainly focused on the positive outcomes of the correlation between the two. Time and again, the literature in international development points out how poor prerequisites such as bad governance is a cause for failure of development projects. However, more recently the opposing view has emerged in the international development literature. The opposing segment of literature uses empirical data to indicate that good governance and other aid conditionalities do not have any impact on the success or failure of a development project.

This opposing view focuses on empirical research that indicates weaker or non-existent relationship between aid conditionality and aid effectiveness. It provides an insight into the less prominent area of development aid literature which argues that over emphasis on governance conditions in aid recipient country does not have a significant impact on the outcome of an aid development project. This literature covers research that identify long-term trends in aid effectiveness, development assistance from non-democratic regimes, and within country comparison of aid projects funded by institutional donors.

My work aims to contribute to the latter segment of literature by using empirical data of development project evaluation ratings and good governance indicators to examine the relationship between the two. The premises of this research is to evaluate if the claim of the opposing view in the development effectiveness literature i.e., that good governance and other aid conditionalities do not have any impact on the success or failure of a development project is true or not. This research uses a dataset of project performance ratings that has not been exploited so far over long periods of time and large set of countries. In addition to that, it merges the project performance ratings with good governance indicators and creates a new dataset to explore the relationship between the two.

1.3 Structure of the Study

The thesis is organized as follows:

In section 2 I discuss the related literature in detail.

In section 3 I present the theoretical framework. Specifically, I discuss theories of international development and dissent of these theories in explaining the effectiveness or ineffectiveness of development aid.

In section 4 I describe the methodology which consists of the dataset and the empirical model. dataset and the data source.

In the first subsection of section 4 I describe the dataset and sample. The data set used in the research will be the program evaluations of development projects and the governance indicators by country. Both data sets are provided as an open source on the website of the World Bank Group. The datasets consist of project ratings and governance rankings from 2000 to 2020 except the year 2002 for which the data is missing. The data for projects includes 5654 projects from approximately 150 countries in Eastern and Southern Africa, Western and Central Africa, Middle East and North Africa, East Asia and Pacific, South Asia, Europe and Central Asia, and Latin America and the Caribbean. The data for governance rankings includes yearly

government effectiveness indicator from the same countries for a period of 2000-2020 as well.

I also present the main features of the project ratings in this section.

In the second subsection of the section 4 I outline the statistical model. In order to establish the association between project success/failure and governance, I use a regression model and I exploit the variation of government effectiveness over time in different geographical locations against the number of projects that were satisfactory or unsatisfactory in the same location during the same time period.

Finally, in section 5 I interpret the estimates of the model, and I conclude in section 6. The conclusion part discusses the policy implications of the results of this research, and it highlights different insights from the results such as non-democratic countries having same or better level of success with development projects as compared to democratic countries and short-lived good governance in countries as outliers.

2. Literature Review

The review of literature for this study covers empirical papers that indicate a statistically insignificant or not significant at all relationship between aid conditionality and effectiveness of aid.

In recent years, the inflow of Chinese development aid and finance has presented itself as a competitor to the aid inflows by western-donor countries. The contrast in both inflows of aid is a crucial observational point as far as the good governance conditionality tied to aid is concerned. Official Development Assistance (ODA) has made good governance and prerequisite to the effectiveness of aid. Since Chinese aid often comes with a “no strings attached” model for governance obligation, it has been criticised to not hold governments accountable for promoting democratic values such as human rights and freedom of speech which are essential for the development aid to work. However, literature in macro analysis of aid separates its effectiveness from good governance conditionality contests such claims.

In a working paper, (Woldemichael, n.d.)⁴ at IMF measured the effectiveness of Chinese aid through a meta study. The meta study collected 190 research papers using key words search in Google and excluded papers not written in English. The analytical sample was further refined into a dataset of 15 studies and 473 estimates. Then the final dataset was divided into different categories based on outcomes such as economic development, governance, stability, or social development. The paper measured the correlation between Chinese foreign assistance and recipient’s outcome in each study.

The findings surprisingly reveal that while Beijing’s aid had a positive impact on development and social outcomes, it had a negligible impact on governance. In other words, the aid still was

⁴ Woldemichael, P. M., Martha Tesfaye. (n.d.). Has Chinese Aid Benefited Recipient Countries? Evidence from a Meta-Regression Analysis. IMF. Retrieved 9 March 2023, from <https://www.imf.org/en/Publications/WP/Issues/2022/02/25/Has-Chinese-Aid-Benefited-Recipient-Countries-Evidence-from-a-Meta-Regression-Analysis-513160>

effective even if it did not improve governance. The report raises the question of priorities and agenda setting in international development efforts. Projects focused on infrastructural development can have social outcomes even if they do not focus on improving governance. It is also imperative to note that development efforts which have no impact on improving governance can have a positive impact on development and economic growth.

In a similar paper by (Dreher et al., 2017)⁵, the impact of Chinese development finance on developing countries was measured. It used an analytical sample of development aid and finance from Chinese government over a period of 15 years. The final data set used for analysis included 4,304 projects financed with Chinese official development assistance (ODA) or other official flows (OOF) in 138 countries and territories in Africa, the Middle East, Asia and the Pacific, Latin America between 2000-2014. Methodology used in the study measured the correlation between Growth in recipient country as GDP per capita in 1 year and Chinese development finance commitment 2 years prior to that.

The findings of the study indicate that for the average recipient country, an additional Chinese project increases growth between 0.41 to 1.49 percentage points 2 years after the financial commitment was made. Doubling of Chinese development finance to the average recipient country implies a 0.05–1.33 percentage points increase in growth 2 years after commitment. The findings of this study again question the policy coupling of good governance with development assistance as Chinese development finance is less good governance conditional as compared to western donor aid but equally effective. In addition, it also undermines efforts of institution building in developing economies by the western donors. This points to a missing piece in the puzzle of aid conditionality and its effectiveness in the literature and suggests further investigation.

⁵ Dreher, A., Fuchs, A., Parks, B., Strange, A., & Tierney, M. (2017). Aid, China, and Growth: Evidence from a New Global Development Finance Dataset. SSRN Electronic Journal. <https://doi.org/10.2139/ssrn.3051044>

At this point, it is reasonable to ask the question that if good governance is not as pivotal as believed in the effectiveness of aid, what other factors determine a development project outcome? A niche of development literature focuses on the project preparedness and implementation techniques and establishes its importance in delivering a successful or unsuccessful project. Different studies on effectiveness of development projects suggest that the success or failure of a project boils down to how good or bad the project was itself and not the context of the country of implementation.

A study conducted by (Bulman et al., 2015)⁶ attempted to investigate the macro and micro determinants of aid projects outcomes in developing countries. The analytical sample selected comprised of 5038 projects exiting the World Bank's portfolio between 1995 and 2012 and a sample of 1696 projects exiting the Asian Development Bank (ADB)'s portfolio between 1973 and 2012. Eventually, a dataset of total of 5119 projects was used that included 3979 World Bank projects and 1322 ADB projects. It investigated the empirical relationship that existed between project outcomes and different country-level and project-level characteristics. The findings of the study established that country-level characteristics accounted for only 10– 25 % of the variation in project outcomes, with the remaining variation were occurring across projects within countries.

Such studies are consequential and have huge implications for the policy transfer and project implementation in the developing countries. Variation in project outcomes within country suggests that aid effectiveness can be improved by improving project-level factors. Governance matters but only to a less significant extent. Project preparation and project related factors are much more significant in determining the future outcomes of a development intervention than

⁶ Bulman, D., Kolkma, W., & Kraay, A. (2015). Good Countries or Good Projects? Comparing Macro and Micro Correlates of World Bank and Asian Development Bank Project Performance. The World Bank. <https://doi.org/10.1596/1813-9450-7245>

local governance. Since project success is often made incumbent upon good governance, the strengths/weaknesses, and consequences of the projects itself are often overlooked.

In a similar study by (Denizer et al., 2011)⁷ tried to determine the micro and macro aspects success and failure in development project outcomes but this time only with projects in World Bank (WB)'s portfolio. The portfolio constituted a sample of A sample of 6000 WB projects implemented in 130 developing countries between 1983 and 2011. Two data sets were used based on the details of evaluation available for each project. The first combined all available projects in the post-1995 period and uses a binary indicator to term project as successful or unsuccessful. The second dataset consists only of projects evaluated since 1995. The method used to measure project outcome consisted of independent variable of potentially endogenous project characteristics and error term capturing the remaining variation in project.

It was found out that the success of individual development projects varies much more within countries than it does between countries. The data showed that the success of individual development projects varies much more within countries than it does between countries. The correlation between project effectiveness and early warnings of a project being problematic is negative and significant. Furthermore, the project preparedness and expenditure are also negatively and significantly correlated to project outcomes. It is interesting to note that even after accounting for a wide range of micro and macro variables, much of the variation in project performance remains unexplained. This points to a gap literature and introduces the need for more research to explain variation in development project outcomes and performances.

It is also worth investigating aid effectiveness in relation to other variables that may cause variation in the impact of development efforts. These variables may include anything from growth, GDP, inequality, instability in the implementing country to ownership, volatility, and

⁷ Denizer, C., Kaufmann, D., & Kraay, A. (2011). Good Countries or Good Projects? Macro and Micro Correlates of World Bank Project Performance. The World Bank. <https://doi.org/10.1596/1813-9450-5646>

unpredictability in aid. In addition to that, the variable of aid fungibility is also extremely important in the context of donor intervention and its consequences for the outcomes of development projects. Different studies have been conducted in this context to see the variation in aid effectiveness in relation to the above-mentioned control variables.

In a study by (Liu & Li, 2020)⁸, they have tried to find out what is the impact of unstable aid flows on aid effectiveness and economic growth in the recipient countries. They selected panel data of 78 aid recipient countries from 2003 to 2017 and analysed the aid effectiveness as dependant variable which is represented as the GDP per capita growth rate. The independent variables were volatility of aid, and the control variable is aid-disbursement per capita. The relation was used to capture the deviation from long-term trends in aid. The empirical findings suggested that coefficient of aid was positive but not significant, concluding that the impact of aid was not significant on economic growth.

However, the impact on economic growth became significant when controlled for aid volatility (deviation in the long-term trends) even though the volatility itself was not significant. The impact of unpredictability (deviation from aid expectation) has a significantly negative impact on economic growth. The policy implication for Official development Assistance (ODA) in such a literature are huge. Higher degree of economic freedom intensifies the impact of aid volatility (deviation from long-term trends) on countries with high level of aid dependency. Aid unpredictability (deviation from aid expectations) weakens aid effectiveness and cripples growth.

In another interesting research, (Rana & Koch, 2022)⁹ tried to observe the process of aid fungibility by recipient governments and its results. Aid fungibility as explained by (Rana &

⁸ Liu, Q., & Li, Z. (2020). Aid instability, aid effectiveness and economic growth. *Development Policy Review*, 40. <https://doi.org/10.1111/dpr.12542>

⁹ Rana, Z. A., & Koch, D.-J. (2022). What happens to aid fungibility when the recipient government takes control? Effects of aid ownership in Rwanda. *Development Policy Review*, 40(5), e12604. <https://doi.org/10.1111/dpr.12604>

Koch, 2020)¹⁰ is when aid resources allocated to finance a specific project, sector, or expenditure are reallocated to a different spending area. They took Rwanda as their case study and used a mix of qualitative and quantitative methods to analyse the process of aid fungibility and its impacts. For quantitative part of the research, they used a multiple regression analysis, and for the quantitative part they used a principal-agent model. The donor as principal and the recipient country as agent have different interest and different intentions to spend the development money. This creates a friction in the development framework as to what extent the donor intervention and country ownership be allowed to maintain a delicate balance for optimal results from the aid disbursement. For the quantitative analysis part, public expenditure in Rwanda and the net Official Development Assistance by the Rwandan government from 1990 to 2018 was used as a data set. For the estimation of results, both qualitative and quantitative models were used. Quantitative model used public expenditure as dependant and ODA as independent variable and the qualitative model used interviews from government officials and development partners.

The results of the study revealed the relationship between ODA and public development expenditure to be negative and significant which indicated the fungibility of ODA in Rwanda. The correlation was U shaped. Initially, the public development expenditure decreased with an increase in ODA, reached 0.0096 of GDP, and then it increased with an increase in ODA. This correlation had both positive and negative impacts as misappropriation of funds and corruption could not be neglected as negative factors. Greater fungibility indicates greater government ownership and more effective use of development funds. However, marginalisation of certain sectors and misappropriation of funds is a negative consequence as well. The policy implication here is that the greater donor intervention through conditionalities could also hinder aid

¹⁰ Rana, Z., & Koch, D.-J. (2020). Is it time to 'decolonise' the fungibility debate? *Third World Quarterly*, 41(1), 42–57. <https://doi.org/10.1080/01436597.2019.1665012>

effectiveness. This area of literature provides a compelling point to investigate the correlation between aid effectiveness and the conditionalities tied to it.

It is important to see long-term overall trends in aid to estimate its effectiveness, especially effectiveness in relation to conditionality such as good governance. These overall trends are crucial in determining the future policies for international development practices. This is perhaps the most important and most relevant debate which in the present policy circles of international development. Furthermore, the debate of less or more conditionality on aid is essentially entangled with the debate of whether international development framework can be decolonized.

In a meta study exploring the long-term trends in impact of aid, (Doucouliagos & Paldam, 2005)¹¹ measured the aid effectiveness by asking the question that when aid effectiveness depends upon z times aid when z is either good policy or the aid itself. Their research revealed that conditionality works in favour of aid effectiveness in some cases but not in the others. The reveal brought their research further to ask the question if the literature on aid provides any explanation for this variation in results in different studies and whether the literature attempts to establish the causes of the interaction terms¹². Their research included an analytical sample of 97 studies on aid effectiveness literature (AEL) out of which 31 papers were selected. The selected papers measured the impact of aid conditionality on growth. The methodology used two models to explain the variable z as mentioned. Good Policy Model: Aid works if the recipient country pursues good policies and is harmful in countries pursuing bad policies. Medicine model: Aid works if given in moderation, and harms if taken in excess, just like most medicine.

¹¹ Doucouliagos, H., & Paldam, M. (2005). Conditional Aid Effectiveness. A Meta Study. *Journal of International Development*, 21.

¹² An interaction occurs when an independent variable has a different effect on the outcome depending on the values of another independent variable.

The meta-analysis investigation showed that the coefficient of interaction between aid and policies was very close to zero. Good policy may help increase growth, but it did not influence the marginal effectiveness of aid. In addition to that, the affiliation of author resulted in some bias in the results of AEL and so do the empirical techniques such as sample size and model. In another meta-study by the same authors (Doucouliagos & Paldam, 2009)¹³ they attempt to see what the overall trends were in last 40 years of aid effectiveness literature presented as empirical macro studies using meta-analysis. A sample size is 30516 data points was collected from the AEL. It included 97 studies that were divided into 3 categories of models: Effect of aid on savings and investment; Effect of aid on economic growth; Effect of conditional aid on economic growth. Total number of models was 182 and total number of regressions was 1113. Two data sets were used to perform the meta-analysis. One set consisted only of the results preferred by authors and the other set consisted of all results. The first provided 182 data points while the other provided 1113 data points. The methodology applied tried to answer 3 questions. Q1: Is there a convergence of trends in the AEL that can be termed as a true effected? Q2: If there is no convergence, can causes of non-convergence be identified? Q3: Are the results of AEL biased in terms of processes and presentation?

The results of the meta-analysis showed that in category A: Aid increased savings and investments by 25% and the remaining 75% went into public spending with a statistically insignificant correlation. In category B: Aid had a positive average corelation with growth again with a statistically insignificant. In category C: There was no correlation between conditional aid and growth. The conditionality model accepts the 0 correlation results but rejects the statement that conditional aid and growth are unrelated. It offers the interpretation that aid helps growth in some cases but in others. The shocking analysis of past 40 years of

¹³ Doucouliagos, H., & Paldam, M. (2009). The Aid Effectiveness Literature: The Sad Results of 40 Years of Research. *Journal of Economic Surveys*, 23(3), 433–461. <https://doi.org/10.1111/j.1467-6419.2008.00568.x>

AEL presents the results that aid has been ineffective. However, the distribution of such results is significantly asymmetrical which reflects the unwillingness of the research community to publish results opposing the narrative that aid works. The study offers Dutch Disease as a possible explanation for aid ineffectiveness.¹⁴ These meta-analyses are pivotal in establishing the foundation of new research avenues as they clearly indicate an important gap in the literature. Further research is required to identify whether conditionality actually has a positive relation with the effectiveness of aid and whether aid development projects actually contribute to growth in an economy.

The literature provides an overview of how development aid may not be working in some areas of may not be dependant upon internal factors of the aid recipient countries. This study will further explore the question if the dataset utilized in this research confirm this hypothesis.

¹⁴ Aid enters economy as a free resource. It makes the country richer by injecting more money into economy. However, the industries shrink causing a decrease in the export of goods and as a result the growth in the country declines.

3. Theoretical Framework

It is of utmost importance to make sense of the theories of international development and how they provide a foundation for development efforts to materialize. International development is a complex and dynamic process that involves economic, social, political, and cultural changes. Theories of international development are frameworks that attempt to explain how societies can attain development. The theoretical framework part of the research will provide an overview of several prominent theories of international development, including modernization theory, dependency theory, world systems theory, and post-development theory. It will also discuss criticisms of these approaches, contemporary debates, and a comparison of their key tenets. The purpose of criticism, comparison, and contemporary debates is to choose the theory that can best explain the rationale behind this research.

First of is the Modernization theory emerged in the post-World War II era as an attempt by Western powers to promote economic growth and political modernization in developing countries. It is based on the idea that societies pass through different stages of development and become fully developed. Therefore, developing countries must pass through the same stages of urbanisation and industrialisation that the western countries did to become developed. The theory posits that development requires the adoption of Western institutions, values, and technologies. Key features of modernization theory include a focus on economic growth, industrialization, modernization, democratization, and Westernization. (Hout, 2016)¹⁵

Some scholars argue that modernization theory is Eurocentric, since it assumes that development is a linear process that can only be achieved by adopting Western models. Critics also contend that modernization theory is simplistic, ignores the diverse needs and aspirations

¹⁵ Hout, W. (2016). Classical Approaches to Development: Modernisation and Dependency. In J. Grugel & D. Hammett (Eds.), *The Palgrave Handbook of International Development* (pp. 21–39). Palgrave Macmillan UK. https://doi.org/10.1057/978-1-137-42724-3_2

of individuals and societies, and leads to cultural homogenization, ecological degradation, and social inequality.

Neoliberal theory of development can be thought of as somewhat similar to modernisation theory and posits that only the factors internal to a country can make it developed or underdeveloped. That is why countries should adopt modern economic policies and institutions such as free market, free trade, and privatisation of businesses to boost economic growth. (Bringing in the 'Neoliberal Model of Development' - David Neilson, 2020, n.d.)¹⁶ The Neoliberal theory is severely criticised for coercing developing countries to open their markets to developed economies through structural adjustment programs of development finance institutions such as MF (International Monetary Fund) and the World Bank.

Dependency theory emerged as a critique of modernization theory and neoliberal theory in the 1960s and 1970s. It posits that developing countries are trapped in a dependent relationship with developed countries, such that their economic growth is hindered by the unequal global division of labour and capital. Dependency theory emphasizes the negative impact of colonialism, imperialism, and capitalism on developing countries. Furthermore, the theory argue that neoliberal model puts developing economies at a comparative disadvantage when competing with finished product of a developed economy and leaves the country's labour and resource vulnerable to exploitation through multinational corporations.

Critics of the dependency theory argue that it is deterministic since it posits that developing countries are doomed to underdevelopment due to the legacy of colonialism and structural constraints. They also point out that dependency theory ignores domestic factors such as corruption, poor governance, and internal conflicts that may contribute to underdevelopment. (Ghosh, 2019)¹⁷

¹⁶ Bringing in the 'neoliberal model of development'—David Neilson, 2020. (n.d.). Retrieved 8 May 2023, from <https://journals.sagepub.com/doi/10.1177/0309816819852746>

¹⁷ Ghosh, B. N. (2019). *Dependency Theory Revisited*. Routledge.

World Systems Theory was developed in the 1970s as an extension of dependency theory. It posits that the world is divided into a hierarchical system of states in which core states dominate and exploit periphery states. The theory also suggests that globalization intensifies economic, political, and cultural relations between countries, leading to interdependence, inequality, and conflict.

Post-development theory emerged in the 1990s as a critique of dominant development discourse, including modernization, dependency, and world systems theory. Post-development theory challenges the assumptions of progress, growth, and development that underpin mainstream development theories. It posits that the Western model of development is unsustainable and leads to environmental degradation, cultural homogenization, and social injustice. It is the most recent theory that is driving the contemporary debate on sustainable development in developing and least developed economies.

Contemporary debates in development theory reflect the complexity and diversity of global development issues, including environmental sustainability, gender, poverty, and social justice. Some scholars argue for a more holistic and context-specific approach to development that emphasizes participation, empowerment, and alternative models of development. Others argue for a more radical critique of dominant development models, emphasizing the need for post-capitalist and post-imperialist approaches. Modernization theory emphasizes economic growth, industrialization, and democracy as key components of development, whereas dependency theory stresses the negative impact of a global system dominated by the West. World systems theory views the world as a hierarchical global system, while post-development theory critiques the Western model of development itself.

Theories of international development provide a useful framework for understanding development processes, but they also have limitations and drawbacks. Critical engagement with these theories can help us develop a more nuanced and context-specific approach to

development that takes into account diverse needs and aspirations. Ultimately, addressing the complex challenges of international development requires a commitment to social justice, sustainability, and equity. This research can be best placed in the dependency and post-development theories as it provides a critique to the state-factor driven factor of development, such as good-governance, theories of development i.e., modernisation and neoliberal theories and question the internationally driven factors such as the institution and policies that govern the implementation practices of development initiatives. Even if the state driven factors are crucial for deriving the success of international development, external factors cannot be ignored. The reason is simple, the measuring instrument of success and failure of international development are all created by the western-centric economies which can have a tendency to be biased or over inflate the results.

4. Methodology

4.1 Data Set and Sample

The data set used for finding the relationship between the success of a development project and governance is a combination of two separate data sets. I merged the analytical sample from World Bank project assessments performed by an independent evaluation group (IEG World Bank Project Performance Ratings | Data Catalog, n.d.) with a dataset about worldwide governance indicators¹⁸ (Worldwide Governance Indicators | Data Catalog, n.d.) measuring different dimensions of governance by the World Bank.

The first data set of project assessments contains 11,300 project assessments from 1970 to the present day. data catalogue available to public contains 6047 project assessments worldwide from 1990 to 2020. The dataset also contains the year the project was approved, final year when it was closed, and the year it was evaluated.

The data set for project ratings is classified into 7 categories of unsatisfactory, moderately unsatisfactory, highly unsatisfactory, highly satisfactory, not rated, satisfactory, and moderately satisfactory.

Table 1: Project Ratings Categories

Project Ratings	Number of Projects
Moderately Satisfactory	2349
Satisfactory	2188
Moderately	915
Unsatisfactory	

¹⁸ Worldwide Governance Indicators | Data Catalog. (n.d.). Retrieved 14 May 2023, from <https://datacatalog.worldbank.org/search/dataset/0038026>

Unsatisfactory	599
Highly Satisfactory	212
Highly Unsatisfactory	78
Grand Total	6341

In Table 2, I analysed the number projects in each category except the unrated projects as they are not the part of the analysis. It can be seen in the table that most projects are rates as satisfactory or moderately satisfactory.

The dataset of project rating outcomes also has a column of year of exit. Year of exit indicates the year in which the project ended.

Table 2: Distribution of Projects by Exit Year

Year	Number of Projects Completed
2000	33
2001	244
2002	298
2003	317
2004	322
2005	337
2006	363
2007	281
2008	304
2009	246
2010	274
2011	262

2012	224
2013	346
2014	416
2015	445
2016	330
2017	365
2018	369
2019	279
2020	280
2021	3

Grand	
Total	6339

In Table 3, I analysed the number of projects per year, and it shows that the number of accomplished projects peaked at 2003, then it started to decline at 2009 and again peaked at 2014. It can also be seen that covid caused significant reduction in the number of projects completed per year. Since 2021 only has 3 projects has been completed which is far less than the number of projects 2 decades ago.

In the empirical analysis I created a dummy variable taking a value equal to 1 if a project was either moderately satisfactory, or satisfactory, or highly satisfactory; and a value equal to 0 if the project was either moderately unsatisfactory, or unsatisfactory, or highly unsatisfactory.

Figure 1: Successful vs Unsuccessful projects

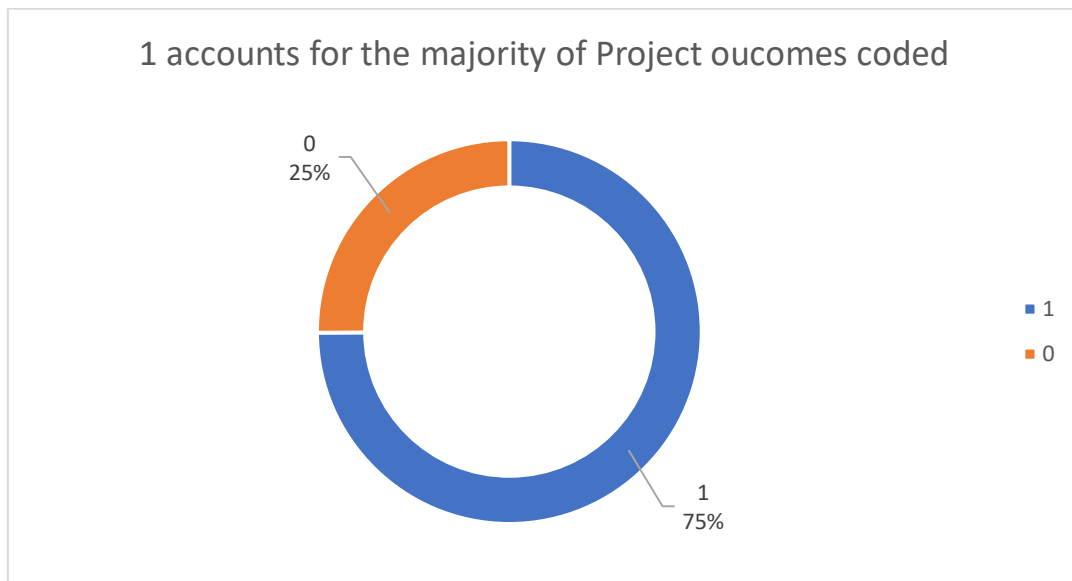


Figure 1 reports that 75% of the projects are successful (coded as 1) and 25% of the projects are unsuccessful (coded as 0).

I analysed and found out that some countries have disproportionately higher number of unsuccessful projects (coded as 0). Table 4 shows the top 5 countries with highest number of unsuccessful projects.

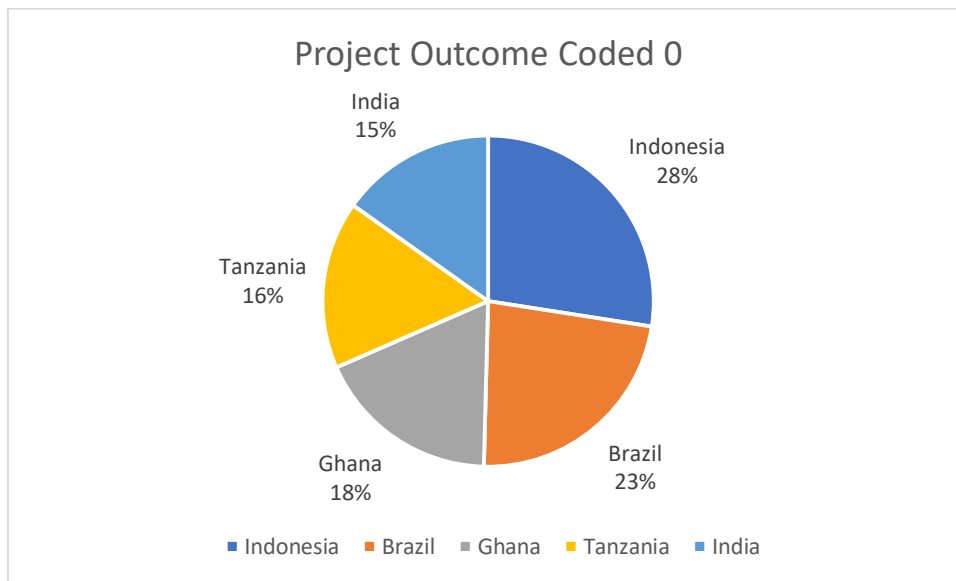
Table 3: Countries with highest number of unsuccessful projects

Country	Project Outcome Coded 0
Indonesia	67
Brazil	56
Ghana	44
Tanzania	40
India	37

I also analysed the percentage of unsuccessful projects per country within these 5 countries.

Figure 2 shows the percentage of unsuccessful projects (coded as 0) as a pie chart.

Figure 2: Top 5 countries with highest percentage of unsuccessful projects



Indonesia had the highest while India ranked the lowest number of unsuccessful projects. It is interesting to note since India has much bigger population than Indonesia and higher levels of acute poverty.

The second data set of governance indicators contains individual and aggregate indicators of governance for each country measured in 6 dimensions i.e., Voice and Accountability; Political Stability and Absence of Violence/Terrorism; Government Effectiveness; Regulatory Quality; Rule of Law; Control of Corruption. These dimensions are measured for over 215 countries from a period of 1996-2018. The data catalogue available to the public contains these dimensions for 214 countries (including regions) from a period of 1996-2021 (excluding the year 2001 for which the data is missing).

Against all 6 dimension of governance, 6 indicators are provided for each country as number of sources, percentile rank, percentile rank: lower bound of 90% confidence interval, percentile rank: upper bound of 90% confidence interval, and standard error. The values for these 6 dimensions are explained in the Table 5 using Government effectiveness dimension (since this study uses government effectiveness dimension as good governance).

Table 4: Governance Indicators and their Definitions

Source: World Bank Data Catalogue¹⁹ (Worldwide Governance Indicators | Data Catalog, n.d.)

Indicator Name	Long definition
<p>Government Effectiveness: Percentile Rank</p>	<p>Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank. Percentile ranks have been adjusted to correct for changes over time in the composition of the countries covered by the WGI.</p>
<p>Government Effectiveness: Number of Sources</p>	<p>Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Number of sources indicates the number of underlying data sources on which the aggregate estimate is based.</p>

¹⁹ Worldwide Governance Indicators | Data Catalog. (n.d.). Retrieved 14 May 2023, from <https://datacatalog.worldbank.org/search/dataset/0038026>

<p>Government Effectiveness: Estimate</p>	<p>Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.</p>
<p>Government Effectiveness: Percentile Rank, Lower Bound of 90% Confidence Interval</p>	<p>Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank. Percentile ranks have been adjusted to correct for changes over time in the composition of the countries covered by the WGI. Percentile Rank Lower refers to lower bound of 90 percent confidence interval for governance, expressed in percentile rank terms.</p>

<p>Government Effectiveness: Percentile Rank, Upper Bound of 90% Confidence Interval</p>	<p>Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank. Percentile ranks have been adjusted to correct for changes over time in the composition of the countries covered by the WGI. Percentile Rank Upper refers to upper bound of 90 percent confidence interval for governance, expressed in percentile rank terms.</p>
<p>Government Effectiveness: Standard Error</p>	<p>Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Standard error indicates the precision of the estimate of governance. Larger values of the standard error indicate less precise estimates. A 90 percent confidence interval for the governance estimate is given by the estimate +/- 1.64 times the standard error.</p>

The governance indicators can be explained further with the help of an illustrated example. If one wants to find the value of good governance in a country X, they would choose the country X in the World Bank database, then choose the year for which they want to see the value, and then would choose the dimension such as government effectiveness, and then choose the

indicator such as percentile rank to find the inquired value. This process is further illustrated by Figure 3.

Figure 3: Good Governance Dimensions and Indicators for Each Dimensions

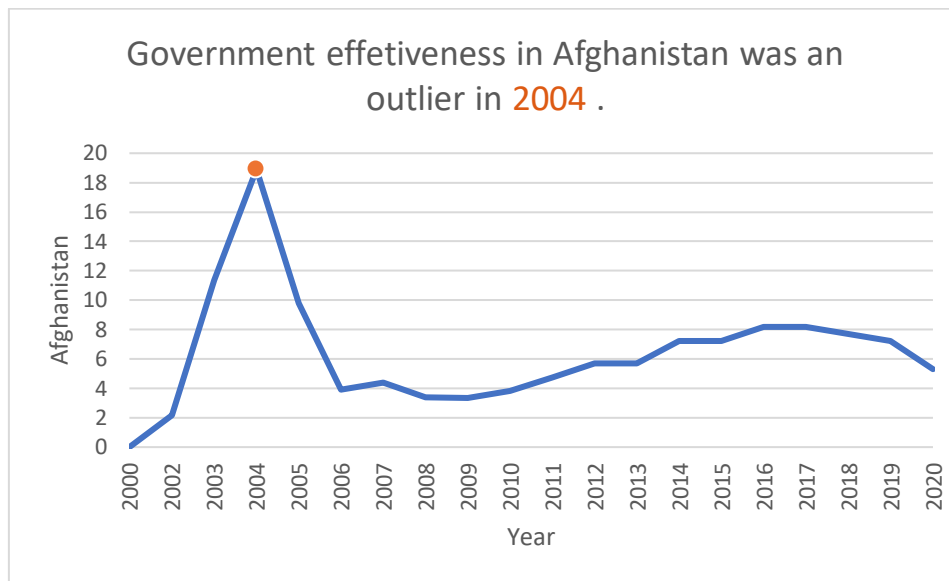
<input type="checkbox"/> Government Effectiveness: Estimate	<input type="checkbox"/> Government Effectiveness: Number of Sources	<input type="checkbox"/> Control of Corruption
<input checked="" type="checkbox"/> Government Effectiveness: Percentile Rank	<input type="checkbox"/> Government Effectiveness: Percentile Rank, Lower Bound of 90% Confidence Interval	<input checked="" type="checkbox"/> Government Effectiveness
<input type="checkbox"/> Government Effectiveness: Percentile Rank, Upper Bound of 90% Confidence Interval	<input type="checkbox"/> Government Effectiveness: Standard Error	<input type="checkbox"/> Political Stability and Absence of Violence/Terrorism
		<input type="checkbox"/> Regulatory Quality
		<input type="checkbox"/> Rule of Law
		<input type="checkbox"/> Voice and Accountability

I used the database to choose government effectiveness as the dimension and then chose the percentile rank as the indicator to get the data for the purpose of this research.

For this research, the data set of performance ratings used contains ratings of 167 countries and regions and the data set of governance indicators used contains 215 countries and regions. To further refine the data, rows containing regions and rows containing values of projects and governance year 2001 (data missing in both sets) are excluded so that there may be no duplication of observations in projects implemented in countries and regions. In the next step project ratings and governance indicators are combined to create the final data sets contains project ratings and governance indicators from over 150 countries. Non-rated projects are also excluded from the data set. The final data set contains 5893 rows of country development projects and country government effectiveness.

I further analysed the governance indicator data and found Afghanistan as an outlier. Figure 4 shows that the Afghanistan reached an all-time high government effectiveness in 2004 (shortly after the US invasion and fall of Taliban government).

Figure 4: Afghanistan as an Outlier



However, that effectiveness was short-lived and unsustainable over time. Such short-lived good governance indicators also put a mark on the authenticity of how governance is measured and calculated as such outlier cases might indicated inflated or manipulated results.

The project performance dataset also provides some interesting insights as it also includes the information on different areas of development in which these projects are implemented. I analysed the data and found that a total of 27 areas of development are provided in which the projects are categorized as different fields. These different fields with their % distribution in total projects are given in Table 6 and Figure 5

Table 5: Different Areas of Development in Projects

% Distribution of Areas of Development

Areas of Development	% Distribution
Agriculture and Rural Development	14.89%
Education	9.30%
Transport	8.91%

Economic Policy	8.57%
Energy and Mining	7.87%
Health, Nutrition and Population	7.73%
Public Sector Governance	7.21%
Financial and Private Sector Development	6.96%
Environment	6.66%
Urban Development	6.15%
Water	5.52%
Social Protection	5.49%
Poverty Reduction	1.56%
Social Development	1.53%
Global Information/Communications Technology	0.84%
Financial Management	0.21%
Financial Systems Practice	0.16%
Competitive Industries Practice	0.13%
Financial Inclusion Practice	0.10%
Investment Climate Practice	0.06%
Capital Markets Practice	0.05%
Gender and Development	0.03%
Innovation, Tech. & Entrepreneurship Practice	0.02%
Sector Board	0.02%
Procurement	0.02%
Operational Services	0.02%

Grand Total	100.00%
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Figure 5: Different Areas of Development in Projects

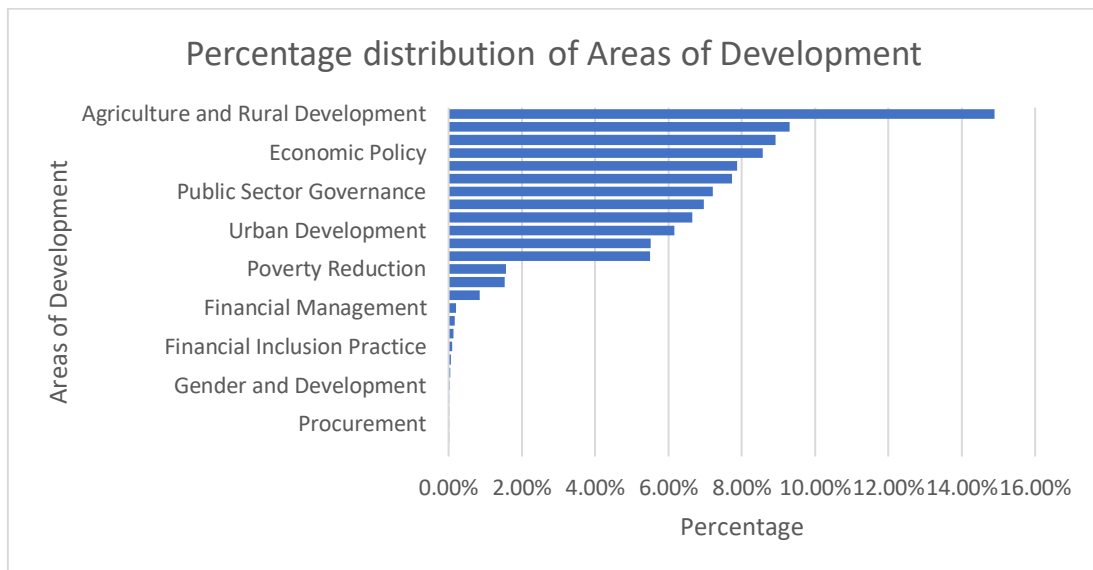


Table 6 and Figure 5 show that the highest % of projects are implanted in the category of agriculture and rural development making it a 14.89% of total projects. Education and economic policies are among the second highest with % distributions of 9.30% and 8.57%. It is also interesting to note that public sector governance projects make up a 7.21% distribution of the total projects. It shows that some projects are solely implemented to improved governance.

In the same data set of project performance rating, country data is also available which shows the number of projects implemented per country. I analysed the data and found that a total of 147 countries are present in the data for which the % distribution of projects is given in the Table 7 and Figure 6.

Table 6: Percentage of Projects per Country

% Distribution of Projects per Country

Country Name	% Distribution of Projects
China	4.73%

India	3.63%
Brazil	3.55%
Indonesia	3.04%
Vietnam	2.30%
Mexico	1.80%
Argentina	1.75%
Colombia	1.73%
Ghana	1.73%
Pakistan	1.72%
Bangladesh	1.72%
Tanzania	1.59%
Morocco	1.40%
Mozambique	1.37%
Turkey	1.31%
Uganda	1.31%
Philippines	1.31%
Peru	1.29%
Albania	1.18%
Romania	1.17%
Ethiopia	1.17%
Senegal	1.17%
Africa	1.14%
Georgia	1.10%
Afghanistan	1.10%
Armenia	1.09%

Russian Federation	1.09%
Nigeria	1.06%
Tunisia	1.04%
Yemen, Republic of	1.03%
Burkina Faso	1.03%
Malawi	1.01%
Bosnia and Herzegovina	0.99%
Kyrgyz Republic	0.98%
Egypt, Arab Republic of	0.98%
Madagascar	0.96%
Rwanda	0.95%
West Bank and Gaza	0.91%
Croatia	0.90%
Mali	0.90%
Benin	0.88%
Lao People's Democratic Republic	0.87%
Sri Lanka	0.85%
Nepal	0.84%
Kenya	0.82%
Sierra Leone	0.82%
Honduras	0.82%
Nicaragua	0.80%
Bolivia	0.79%
Niger	0.77%
Poland	0.77%

North Macedonia	0.77%
Ukraine	0.76%
Zambia	0.74%
Cambodia	0.74%
Azerbaijan	0.73%
Moldova	0.69%
Tajikistan	0.66%
Bulgaria	0.66%
Jordan	0.63%
Serbia	0.63%
Guinea	0.60%
Mauritania	0.58%
Guatemala	0.55%
Cote d'Ivoire	0.55%
Kazakhstan	0.55%
Jamaica	0.54%
Burundi	0.54%
Mongolia	0.52%
Chad	0.52%
Uruguay	0.50%
Timor-Leste	0.50%
Cameroon	0.50%
Haiti	0.49%
Ecuador	0.49%
Lesotho	0.47%

Dominican Republic	0.47%
Lebanon	0.46%
Kosovo	0.44%
Congo, Democratic Republic of	0.41%
Chile	0.41%
Panama	0.41%
Cabo Verde	0.39%
El Salvador	0.36%
Uzbekistan	0.36%
Bhutan	0.35%
Algeria	0.35%
Iraq	0.33%
Thailand	0.32%
Western Africa	0.32%
Paraguay	0.32%
Papua New Guinea	0.32%
Guinea-Bissau	0.30%
South Sudan	0.30%
Togo	0.30%
Venezuela, Republica Bolivariana de	0.30%
Angola	0.28%
Lithuania	0.28%
Gambia, The	0.28%
Latvia	0.28%
Central African Republic	0.27%

Liberia	0.25%
Eritrea	0.25%
Guyana	0.25%
Mauritius	0.25%
Iran, Islamic Republic of	0.25%
Montenegro	0.24%
Congo, Republic of	0.24%
Djibouti	0.24%
Comoros	0.24%
Grenada	0.22%
St. Lucia	0.22%
Samoa	0.21%
Sudan	0.21%
Solomon Islands	0.21%
Tonga	0.19%
Costa Rica	0.19%
Sao Tome and Principe	0.19%
Zimbabwe	0.17%
Maldives	0.16%
Belarus	0.16%
Hungary	0.16%
South Africa	0.14%
Slovak Republic	0.13%
Estonia	0.13%
OECS Countries	0.13%

Gabon	0.13%
Kiribati	0.11%
Seychelles	0.11%
World	0.11%
Caribbean	0.11%
Malaysia	0.09%
Trinidad and Tobago	0.08%
Korea, Republic of	0.08%
Belize	0.08%
Western Balkans	0.08%
Latin America	0.08%
Dominica	0.08%
St. Vincent and the Grenadines	0.08%
Central America	0.06%
Middle East and North Africa	0.06%
Namibia	0.06%
South Asia	0.06%
Slovenia	0.06%
St. Kitts and Nevis	0.06%
Europe and Central Asia	0.05%
Barbados	0.05%
Turkmenistan	0.05%
Eswatini	0.05%
Botswana	0.05%
Central Asia	0.03%

Mekong	0.03%
Tuvalu	0.03%
Czech Republic	0.03%
East Asia and Pacific	0.03%
Somalia	0.03%
Antigua and Barbuda	0.02%
Marshall Islands	0.02%
Aral Sea	0.02%
Vanuatu	0.02%
Eastern Africa	0.02%
Andean Countries	0.02%
Micronesia, Federated States of	0.02%
Equatorial Guinea	0.02%
Fiji	0.02%
Red Sea and Gulf of Aden	0.02%
Myanmar	0.02%
Grand Total	100.00%

Figure 6: Percentage of Projects per Country

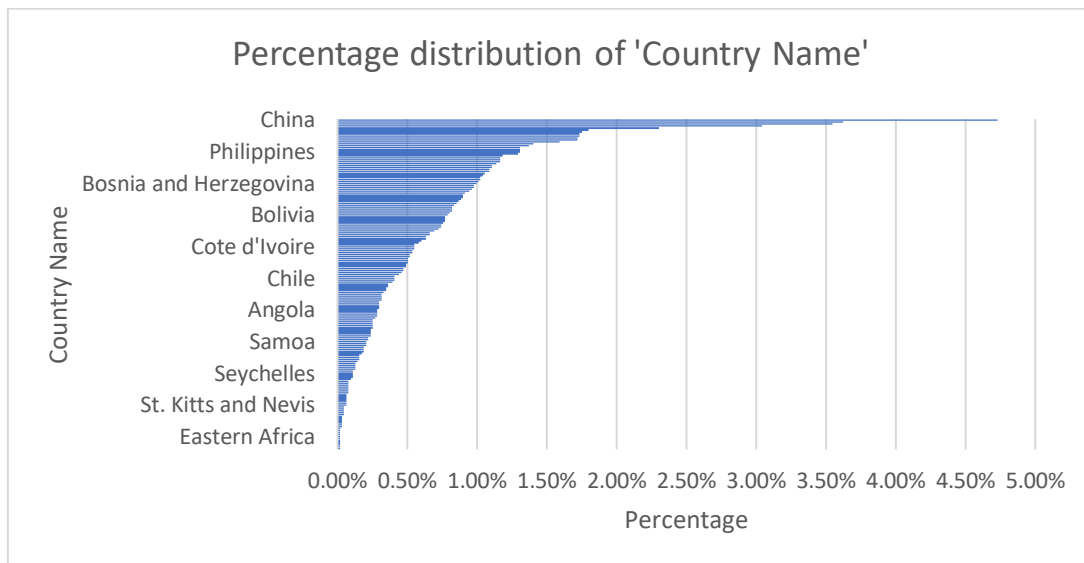
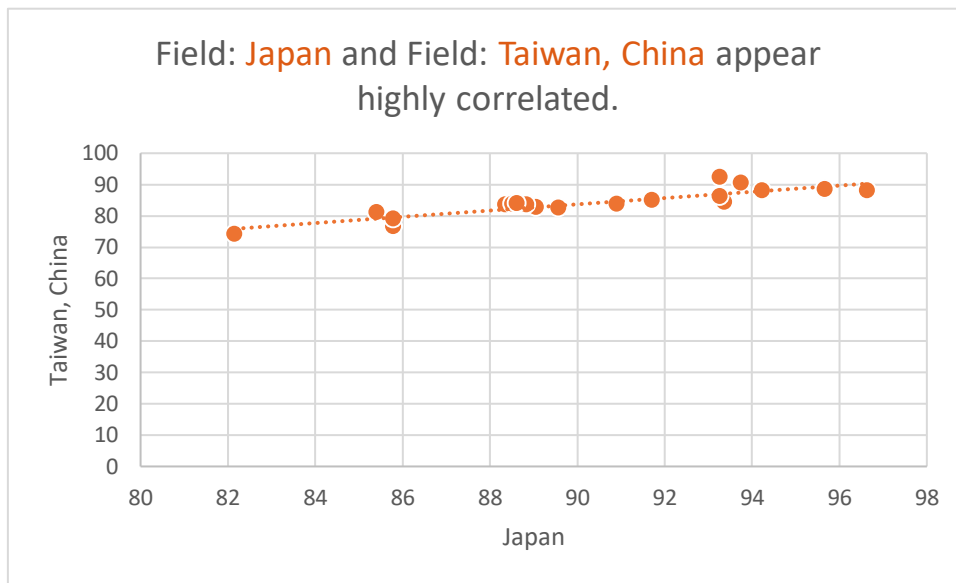


Table 7 and Figure 6 show that most projects are implemented in countries having larger populations with China, India, Brazil, and Indonesia on top of the list. These are the same countries that are also among the top 5 largest populations in the world (Brazil recently descended to number 6).

I further analysed the governance indicators data and found out that government effectiveness in some countries appear on the same level. It is important since China is among those countries, and it is also the country in which the highest number of development projects were implemented. Figure 7 shows this correlation between China, Taiwan, and Japan.

Figure 7: Government Effectiveness in China, Taiwan, and Japan



This is an extremely interesting insight as Japan is a democracy, China is a communist state, and Taiwan being a democracy under communism (do not want to provide a political opinion on status of Taiwan). Each of these countries have high government effectiveness which also puts into question the necessitation of democratic values (such as freedom of speech and press) for a country's development.

4.2 Empirical Model

The research uses quantitative method to analyse and measure the relationship between the dependant variable (success or failure of the development project in a country) and the independent variable (government effectiveness in the same country). In the main specification, the dependant variable Y outcomes are codified as 0 and 1, where 1 represents 3 successful project outcomes (moderately satisfactory, satisfactory, highly satisfactory) and 0 represents 3 failed project outcomes (moderately unsatisfactory, unsatisfactory, highly unsatisfactory). The independent variable X takes values reflecting government effectiveness percentile rank.

Both these variables change over time (2000-2020) and across geographical locations (across the world). It is important to note here that development project span over a period of years, therefore, the final data set uses the final exit year of the project as a year for analysis. The hypothesis for this research is if the overall governance in a country has an impact on the success or failure of a development project implemented in the said country, there must exist a statistically significant relationship between project outcomes and governance. A regression analysis is run to see if changes in X cause any changes in Y.

The estimation equation for this analysis is given as

$$p_{ict} = \beta g_{ict} + \delta_c + e_{it}$$

Where p_{ict} is the rating for a single project i implemented in a country c in a given year t and its value can either be 1 or 0; g_{ict} is the government effectiveness percentile rank in the country of implementation in a given year; δ are country-specific fixed effects that might influence the project and e is the standard error term.

5. Results

The results of the analysis indicate that as opposed to the new emerging literature, which rejects that aid conditionality such as good governance has an impact on a development project's success or failure, a statistically significant relationship exists between the project's success and failure and government effectiveness when country fixed effects are controlled for.

Three different regression analysis are run with country dummies, year dummies, and where the moderately satisfactory projects are considered unsuccessful (coded as 0). Since this is the World Bank's database and 75% of the projects are in some category of satisfactory, putting moderately satisfactory projects in the unsuccessful category offers more variation in analysis. Table 7 of results show that the results of regression are statistically significant in all 4 columns. Even after coding the moderately satisfactory projects as failure, the results remain significant.

Table 7: Linear Probability Model (Dep.var. Successful Rating)

	(1)	(2)	(3)	(4)
Governance				
	0.0033*** (0.0003)	0.0032*** (0.0003)	0.0016* (0.0009)	0.0021** (0.0009)
Country dummies		x	x	x
Year dummies			x	x
Constant	1.138*** (0.330)			
Sample Size	5889	5889	5889	5889

Note: Standard errors are reported in parenthesis. * indicates significant at 10%;

** significant at 5%; *** significant at 1%. The dep.var. is equal to 1 if the rating is highly satisfactory, satisfactory or moderately satisfactory in columns 1,2, and 3; and only coded as highly satisfactory or satisfactory in column 4 (i.e., moderately satisfactory is coded as a failure).

6. Conclusion & Discussion

The analysis found that government effectiveness is a significant predictor of project outcomes or success ratings. The coefficient of government effectiveness shows a significant relation with the project rating. With 5889 number of observations over 20 years and approximately 150 countries, the dataset is sufficiently large enough to conclude that the results remain consistent over time and in geographic locations.

These results are different than the one's indicated in the emerging literature in the field of international development as discussed in the literature review section of the research. These results include projects from countries all across the world in regions including Middle East, North Africa, South Asia, East, Asia, Eastern Europe, Latin America, and the Caribbean and more. These projects have been implemented in the past 20 years from 2000 to 2020. The literature on international development has conflicting views, the dominant and widely spread literature is on how good governance is necessary for international development.

However, it is also important to note here that the reason for this widespread view that good governance is necessary for good projects could partly be that it exempts the donor countries (mostly developed first world western countries) and development finance institutions (IMF, World Bank) from taking responsibility of failure of any development initiative and shifts the blame entirely unto the aid recipient countries. Since the datasets available to do research are also the one's created by international development finance institutions and most of the project outcomes are marked satisfactory, creation of new instrument to measure the international development efforts has become crucial at this point.

It is also important to reflect upon the post-colonial and post-imperial mindset which is now being challenged by the dependency theory and post-development theories which argue that the foundation of international development framework is western-centric and not optimal and tailored to the needs of non-western countries. But as far as the implementation of a project is

concerned, the good governance does result in successful project outcomes. It could also be due to the fact that the success is being measured in western-centric parameter and the standards for success or failure are held under the current framework. Therefore, the policy changes are still needed to create better frameworks of international development that take into account unquantifiable variables such as cultural and social heterogeneity.

The policy implications for this study are consequential since it suggests that the current framework of international development is working which puts the recent theories of development such as dependency and post-growth into a difficult position. It is also in clash with some literature where studies show that the development projects show higher level of variation in their outcomes in the same country with same level of government effectiveness than across different countries with different levels of government effectiveness. However, the results cannot take away from the fact that if development aid's result too much dependent upon a country's governance also makes it easier to shift the blame onto aid recipient country in case of a failure. In addition to that, countries with bad governance are mostly the ones in need of international development aid.

With the Chinese development finance making its way into the international development donor field, different empirical studies are emerging that show an alternative model of development aid. These studies show that Chinese development aid project have the same or higher success rate even if they have zero or even negative relationship with the governance condition in a recipient country. This points to a direction that different frameworks of development could work and be successful and there could be different ways of measuring the success or failure of a development project. The hope for the future is that more studies are conducted to evolve the framework of international development aid and get optimal results from the projects that are implanted in aid recipient countries.

Appendix

1. IEG World Bank Project Performance Ratings Dataset
2. World Bank Worldwide Governance Indicators Dataset

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