

The Role of Politics
in the Allocation of Multilateral Aid

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List of Abbreviations

AAID	Arab Authority for Agricultural Investment and Development
ADB	Asian Development Bank
AFESD	Arab Fund for Economic and Social Development
AGFUND	Arab Gulf Program for Development
AMF	Arab Monetary Fund
BADEA	Arab Bank for Economic Development in Africa
CIA	Central Intelligence Agency
CPI	Consumer Price Index
DAC	Development Assistance Committee
DRC	Democratic Republic of the Congo
G5	France, Germany, Japan, United Kingdom and United States
G7	Canada, France, Germany, Italy, Japan, United Kingdom and United States
GDP	Gross Domestic Product
GNI	Gross National Income
FSO	Fund for Special Operations
IBRD	International Bank for Reconstruction and Development
ICRG	International Country Risk Guide
IDA	International Development Association
IDB	Inter-American Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
IsDB	Islamic Development Bank
LAC	Latin America and Caribbean
LIBOR	London Interbank Offered Rate
MENA	Middle East and North Africa
MNLF	Moro National Liberation Front
OC	Ordinary Capital
OCR	Ordinary Capital Resources
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OF	Official Finance
OFID	OPEC Fund for International Development
OIC	Organization of Islamic Cooperation
OLS	Ordinary Least Squares
OPEC	Organization of the Petroleum Exporting Countries
RDB	Regional Development Bank
UN	United Nations
US	United States

Overview:

An Empirical Analysis in Three Chapters

Development aid is political. The establishment of International Financial Institutions (IFIs) is often perceived as an instrument for some countries to achieve influence over others (e.g., Buira 2005, Bird and Rowlands 2006). The control pursued may be political, commercial, or over the strategies to achieve development. Furthermore, some authors claim that the ability to influence IFIs' lending decisions is essential to guaranteeing the engagement of powerful countries in international cooperation and therefore the survival of these institutions (Dreher et al. 2009b, Copelovitch 2010). Not surprisingly, the development aid literature recognizes that major stakeholders' particular interests in borrowing countries are a key driver of resources allocated by IFIs. Empirical studies reveal that political allies of the US are more likely to participate in International Monetary Fund (IMF) programs (Thacker 1999, Dreher et al. 2009a), receive more favorable loan terms (Oatley and Yackee 2004, Dreher and Jensen 2007) and be subjected to lighter penalties for noncompliance with conditions from this same institution (Stone 2004, Dreher et al. 2015). Preferences of the G5 countries have likewise been identified as a key determinant of variation in IMF loan size and conditionality (Copelovitch 2010). Similarly, World Bank lending has been linked to US commercial- (Fleck and Kilby 2006, Bresslein and Schmaljohann 2013) and geopolitical-interests (Andersen et al. 2006, Dreher et al. 2009b, Kilby 2013). Regional Development Banks (RDBs) have also been shown to lend strategically. For example, loan disbursements by the Asian Development Bank (ADB) more often follow the self-interests of its two major donors, namely Japan and the US, than borrowers' needs (Kilby 2006, 2011b, Lim and Vreeland 2013).

Politically driven aid is problematic because it is more likely to be ineffective. Three arguments supporting this idea are the following: First, it can favor projects with lower expected payoffs in strategic countries at the expense of promising ones in other countries (Dreher et al. 2013). Second, it guarantees project execution continuity regardless of success. Projects are still pursued even when insufficient time and resources are dedicated to their preparation (Kilby 2011b). And third, it allows borrowers to not comply with policy reforms that encourage project success or economic growth (Dreher et al. 2013). Several studies for the IMF and the World Bank suggest that political favoritism weakens the ability of recipient

countries to implement policy reforms requested through loan conditionality (Stone 2008, Kilby 2009, Nooruddin and Vreeland 2010). It has been shown that human rights violations are practically sanctioned with the suspension of aid to countries without donor political ties, while not to those with them (Nielsen 2013). In fact, Dreher et al. (2014) find that the effect of aid on growth is significantly lower when aid has been granted for political reasons, and concludes that short term political favoritism reduces growth.

This dissertation studies the role of politics in the conformation of IFIs. Each of its three chapters explores the rootedness of politics in every key component of IFIs: mission, structure, and policy. Chapter 1 takes the mission of the IFI as a starting point to understand the diffusion of political favoritism in its lending decisions. The foundation of IFIs often responds to the desire of the main sponsor to spread its area of influence and this is reflected in the mission. Here, the Islamic Development Bank (IsDB) is taken as an example. The IsDB is an RDB initiated with the support of King Faisal Bin Abdulaziz of Saudi Arabia and restricted to countries with significant Muslim populations. The analysis explores to what extent IsDB lending follows the interests of Saudi Arabia in the Islamic world based on religious affinity. Chapter 2 focuses on the structure of IFIs as facilitators of political favors. The number of voting shares is generally assigned to each member according to their capital contributions and it is the most important feature in the structure of IFIs because it provides institutional control to large stakeholders. This chapter considers the Inter-American Development Bank (IDB) to identify the effect of the preference heterogeneity of influential members on the ease of approving politically motivated loans. And lastly, chapter 3 observes how IFIs adjust their policies to cope with the conflicting interests of other actors. Credit conditionality is the main policy instrument of IFIs to improve aid effectiveness but it can also serve to maintain an area of influence. Donors can engage in a “race to the bottom” through credit conditionality to reach borrowers and achieve influence over them. This chapter investigates the extent to which World Bank conditionality responds to the rising presence of “new” donors in Africa.¹ The three chapters provide evidence on the three core arguments supporting the claim that IFIs are failing to promote growth. Namely, they are in the first place not necessarily founded to promote growth, their structures are designed to allow their main donors to control them, and their policies are inconsistent and can be designed to protect their self-interests. The dissertation also suggests what to expect from IFIs

¹ “New” donors is a term generally employed in the aid literature to refer to donors outside the OECD’s Development Assistance Committee (DAC).

in the near future and highlights the key areas that need to be reformed to hinder politically motivated lending.

Together with coauthor Krishna Vadlamannati, we study in Chapter 1 the advantages for Saudi Arabia in sponsoring the IsDB to gain leadership in the Arab region and its periphery without the interference of the G7 countries. The empirical analysis is based on panel data techniques applied to a dataset of loan commitments by the IsDB to its 56 members over the 1970 to 2007 period. Results suggest that IsDB lending closely follows the political interests of Saudi Arabia based on religion. Sunni regime countries receive favorable treatment in terms of loan allocation, as well as Shia majority populated countries in exceptional occasions with other religious minority groups, while non-Muslim countries are the least favored. There is also evidence that World Bank lending to the same group of countries and over the same time frame does not respond to the political stance of Saudi Arabia founded on religion. The findings reveal the advantage that Saudi Arabia gains by assuming the leadership of an RDB in contrast to coordinating common strategies in a global IFI with other large shareholders for whom religion might not be essential for political alliances. Saudi Arabia most likely took the decision to initiate the IsDB to maintain its position as a regional power in the Islamic world.

Chapter 2 offers an explanation as to why the US exerts limited control over the IDB despite being its largest shareholder. The structure of the IDB is atypical to that of comparable IFIs and it might protect IDB lending against US political and commercial interests in the Latin America and Caribbean (LAC) region. Unlike in other RDBs, borrowers in the IDB hold the majority of the voting share and its three largest borrowing members, namely Argentina, Brazil, and Mexico, have been granted altogether with as much voting weight as the US. Results presented are based on the analysis of IDB loan commitments to its 26 borrowing members over the 1970 to 2007 period. They suggest that interest heterogeneity between the US and the previously mentioned borrowing members leads to distributional conflicts and thereby creates the opportunity for greater institutional autonomy. The better representation of non-borrowing members in the IDB translates into more independent lending practices. An inclusive structure can therefore limit the exposure of development resources to the interests of the major stakeholder.

The dissertation finalizes in chapter 3 by discussing the decision of the World Bank to reduce its credit conditionality in contrast to its own recommendation of diverting aid to good policy environments. Both positions are conflicting since the World Bank delivers conditions

to actually improve the effectiveness of aid. Nevertheless, World Bank conditionality has been recognized as being inconsistent and as reflecting the interests of its major stakeholders. The easing off of the conditionality of World Bank loans is likely due to the increasing global presence of new donors in aid-related activities. The examination of the determinants of World Bank conditions delivered to 54 African countries over the 1980 to 2013 period suggests that this is the case. The World Bank provides fewer conditions attached to their loans to African countries that are also assisted by China. A similar pattern is observed in middle-income borrowers that receive financial assistance from Kuwait and the United Arab Emirates, but this effect vanishes after the turn of the new millennium. This reaction reveals that the World Bank is engaged in a race to the bottom with China as it did with Kuwait and the United Arab Emirates in the past. The World Bank seems to be moderating its policy advice to protect its interests in Africa.

Chapter I:

Politics of Religiously Motivated Lending: An Empirical Analysis of Aid Allocation by the Islamic Development Bank

Joint work with Krishna Vadlamannati^a

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I.1. Introduction

Regional powers approach Regional Development Banks (RDBs) to exert influence over their geographical proximity (Kilby 2006, Lim and Vreeland 2013). Saudi Arabia is not an exception and has taken the initiative to found and assume the chief sponsorship of several RDBs, possibly to gain leadership in the Arab region and its periphery without the interference of the G7 countries.² Unlike the G7, religious affiliation is particularly important for Saudi Arabia to draw political alliances in the Islamic world, making the building of common strategies for this region between both sides a difficult task (Neumayer 2004, Andersen et al. 2006, Clark 2012). For this reason, it is rather challenging for Saudi Arabia to position its interest through the Bretton Woods Institutions, despite its significant participation in them (Blanchard and Prados 2007, Copelovitch 2010, Bremmer 2013).³ In this chapter we analyze the lending decisions of the Islamic Development Bank (IsDB), by far the largest Saudi-led RDB and Arab development agency, and observe to what extent these are driven by Saudi Arabia's political interests based on religious affiliation.⁴ We further perform a similar assessment of the World Bank for the same group of countries and over the same time frame, and observe the relative advantage Saudi Arabia might gain by taking on the directorship of an RDB to pursue its own interests.

The limited number of studies on aid allocation by Arab donors agree that predominantly Muslim countries are their main beneficiaries (Simmons 1981, Hunter 1984, Neumayer 2003, 2004). This finding can also be extended to the IsDB, as it was set up in 1975 with the very purpose of providing development assistance only to countries affiliated to the Organization of Islamic Cooperation (OIC) and to facilitate their access to Sharia

² Saudi Arabia is the largest shareholder of the Arab Authority for Agricultural Investment and Development, the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Arab Gulf Program for the United Nations Development Organizations, the Arab Monetary Fund, the Islamic Development Bank, and the OPEC Fund for International Development (AAID 2012, BADEA 2012, AFESD 1968, AGFUND 2011, AMF 2012, IsDB 2010, OFID 2012). None of the G7 countries is a member of any of these RDBs.

³ Saudi Arabia is the eighth, tenth and sixth largest capital subscriber in the IMF, IBRD and IDA respectively (IMF 2013, World Bank 2013a, World Bank 2013b).

⁴ Statistics in OFID (2004) suggest that the IsDB is the largest Saudi led and Arab development agency with cumulative loan commitments until 2003 of US\$ 34,224 million. Figures for the following major Arab development agencies are US\$ 15,492 million for the Arab Fund for Economic and Social Development, US\$ 12,400 million for the Kuwait Fund for Arab Economic Development, US\$ 6,896 million for the OPEC Fund for International Development, US\$ 6,474 million for the Saudi Fund for Economic Development, US\$ 3,384 million for the Abu Dhabi Fund for Development, US\$ 2,196 million for the Arab Bank for Economic Development in Africa, and US\$ 238 million for the Arab Gulf Program for United Nations Development Organizations.

compliant monetary resources (Warde 2000, Villanger 2007). Though Islamic solidarity is expected to play a dominant role in IsDB lending decisions, Muslim communities are not homogeneous and recognizing a grasp of countries' affiliation to specific Islamic denominations is crucial to understanding politics in the region. Saudi Arabia, as largest donor of the Bank, pays special attention to the different Islamic denominations in forging political alliances in the Islamic world and therefore we expect this to be reflected in IsDB lending patterns (Clark 2012, Abdo 2013).

Of particular relevance to comprehending Saudi Arabian interests is the relationship between Sunnis and Shias, which are the first and second largest Islamic denominations and constitute around 95 percent of the total Muslim population (Pew Research Center 2009a, 2009b). Sunni-Shia relations have been marked by violent conflict, and tensions between them are a common phenomenon across the Arab region and its periphery (Luomi 2008, Blanchard and Prados 2007). This has resulted in the polarization of Islamic societies based on affiliations to these two denominations, and international political support among equal Islamic denominations is the norm (Clark 2012, Keath 2013). As for communities affiliated with smaller Islamic branches, cooperation is usually sustained on the acceptance of one or the other's religious fundamentals (Luomi 2008, Clark 2012). The Sunni-Shia divide, however, seems to play a less relevant role in the presence of strong social frictions with non-Islamic communities. Sunnis and Shias tend to collaborate with one another during periods of conflict with populations of other faiths in multi-religious countries, arguably to join together against a common enemy (Abdo 2013, Hunter 2013).

Using panel data on IsDB loan commitments allocated across its 56 member countries during the 1976-2007 period, we find that Sunni-affiliated member countries receive significantly larger resources from the Bank relative to non-Muslim affiliated members. In addition, members with large Shia populations witness significantly larger loans relative to those with large non-Muslim populations, but this is conditional on the presence of conflicts with other religious groups (Christians or Hindus, for example). These lending patterns closely mirror the political stance of Saudi Arabia in the Islamic world. A comparable analysis employing World Bank loan commitments suggests that Saudi interests do not influence lending from this institution to the Arab region and its periphery. These findings confirm the advantage for Saudi Arabia to position its interests by assuming the leadership of a RDB.

The remaining of this chapter is organized as follows: section I.2 introduces the IsDB, section I.3 presents our argument with anecdotal evidence on the polarization of the Islamic

world and how it might affect lending decisions at the IsDB. Section I.4 introduces our data and estimation strategy, while section I.5 presents the discussion of our main results, and section I.6 concludes the study.

I.2. The Islamic Development Bank

The founding of the IsDB was in response to the interest of the OIC in providing its member states with access to Sharia compliant financial resources. The idea was encouraged by King Faisal Bin Abdulaziz of Saudi Arabia and first discussed during the Second Islamic Finance Ministers' Conference held in Jeddah in 1974 (Warde 2000). Headquartered in this same city, the Bank started its operations in 1975 with its 22 founding members, which are largely found in the Middle East and North Africa (MENA) region. Since then, membership has been extended to countries in Sub-Saharan Africa, Central Asia, South Asia, South East Asia, and Latin America, with a total of 56 members to date, all of which are eligible to receive loans.⁵ Affiliation with the OIC is a basic condition for membership in the Bank (IsDB 2013a).

The mission of the IsDB is to promote human development focusing on the alleviation of poverty, improvement of health and education standards, and assurance of good governance practices in accordance with the principles of the Sharia law (IsDB 1974). The IsDB was to become the cornerstone of Sharia compliant banking. Financial services delivered within this banking scheme follow three core principles: prohibition of interest rates on loans, share of financial risk between provider and customer, and investing solely in businesses that provide goods and services in accordance with Islamic values (Gafoor 1995, Warde 2000). The IsDB exclusively offers financial instruments that are consistent with Sharia law, the most common being interest-free loans, instalment sales, leasings, and financial services referred as *istisnaa*.⁶ Interest-free loans are extended to governments to provide long-term financing for development projects in basic infrastructure and agriculture. They are free of interest rate charges, however, they do bear a service fee to cover administrative related expenses incurred by the Bank, which must not exceed 2.5 percent per annum. Softer terms may be provided for certain types of projects in the least developed members, in which the administrative fee ceiling is set at 0.75 percent yearly. Even though service fees might resemble interest rates, these cannot be affected by time horizons of

⁵ A complete list of the current members of the IsDB is given in Appendix 1.

⁶ According to the IsDB's Financial Statement for the year 2012, these financial instruments represent the vast majority of the assets of the Ordinary Capital Resources (OCR) of the Bank (IsDB 2013b).

repayments and therefore, in case of default for example, no additional charges can be incurred (Warde 2000). Throughout instalment sales the Bank purchases the machinery or equipment needed for a certain project and then resells it to the beneficiary adding a mark-up mutually agreed upon by both parties, which must not exceed 5.1 percent yearly. The ownership of the asset is transferred to the beneficiary upon delivery. By opting for a lease, often denoted as *ijarah*, the Bank procures an asset needed for the production of a good or service, such as factories or power generation plants, and rents them to the beneficiary for a specific period of time. The assets procured remain property of the Bank during the lease financing period and the profit margin ceiling is 5.1 percent yearly. Lastly, *istisnaa* is a financial instrument in which the Bank produces a specific good to be manufactured from materials available to it, according to certain agreed specifications, to be distributed to the beneficiary at a determined price. Conditions regarding the rate of return and ceilings are the same as for instalment sales.

The IsDB's capital comes from the contributions paid by its members. At the time of the foundation of the Bank, the Board of Governors determined the number of shares each member is entitled to subscribe to the ordinary capital. The Board of Governors must also make the decision concerning reestablishment of the new distribution of shares in cases where it has admitted an additional country to membership, authorized a general capital stock increase, or accepted a request to raise an existing member's subscriptions. Currently, the largest shareholder of the Bank is Saudi Arabia with 23.6 percent of the total capital subscriptions. The next largest shareholders in order from largest to smallest are Libya, Iran, Nigeria, the United Arab Emirates, Qatar, Egypt, Turkey and Kuwait, each of them holding between 9 and 6 percent of the Bank's capital subscriptions. Each of the 56 members appoints a governor and an alternate governor to the Board of Governors, which is the highest policy making body in the Bank. Governors usually hold key ministerial positions in their countries of origin and represent the interests of their home governments in the Bank. The voting power of each governor is linked to the country's contribution to the Bank's capital stock, with each having 500 votes plus one additional vote for every share subscribed. The Board of Governors elects the officials of the Board of Executive Directors and the president of the Bank. It delegates the management of the activities of the Bank to the Board of Executive Directors, including budget approvals and other decisions concerning the business of the Bank. The Board of Executive Directors is composed of 9 permanent officials from the abovementioned 9 member countries and 9 additional elected officials from the remaining 47 member countries. The president of the Bank is appointed for a 5 year term and may be reelected.

The approval of any decision met in the Board of Governors and the Board of Executive Directors requires a simple majority. This gives Saudi Arabia an enormous advantage in every decision making process, as it owns almost half of the voting power required for a resolution to be accepted. Essentially, it needs the support of only three or four other large member countries to pass any favored proposal. Even though Saudi Arabia does not retain a formal veto power, it is very difficult to approve any project it is opposed to. Its formal influence in the governance of the IsDB is reflected by the fact that the president has always been a Saudi national. In fact, Ahman Mohamed Ali Al-Madani has held the presidency from the foundation of the Bank to the present day (except for the 1993-1995 period in which he served the Muslim World League as Secretary General), implying that he has been reelected seven times by the Board of Governors. The president is the chief executive of the Bank and acts as chairman of the Board of Executive Directors. In addition, he nominates the vice presidents to be elected by the previously mentioned body and is responsible for the appointment and dismissal of the officers and staff of the Bank. Such organizational structure allows the government of Saudi Arabia to substantially control the IsDB.

The core business of the IsDB involves two different lines of credit financed by the Ordinary Capital Resources (OCR) of the Bank and the Waqf Fund respectively. Compulsory fees, provided by the 56 members of the Bank, form its OCR and support development projects in the territories of these countries. On a smaller scale, other voluntary contributions are delivered to the Waqf Fund to sponsor Muslim communities in non-member countries. These resources represent less than one fifth of the Bank's total assets, with more than 60 percent of the total being donated by Saudi Arabia (IsDB 2013b).⁷ On average, the IsDB committed US\$ 400 million every year to its members during the 1976-2007 period (refer to Figure I.1). Relatively generous allocations during the early years of the Bank resumed after the price of oil (the largest donors' main export commodity and source of government revenue) returned to its historical average during the early 1980s. Low oil prices and production throughout most of this same decade, as well as instability in the region caused by the Gulf War in the early 1990s, limited the availability of resources of the Bank until the mid-1990s (Shushan and Marcoux 2011). Funding has since then been on the rise and commitments reached US\$800 million in 2007. These figures place the IsDB as the largest

⁷ Further information on other contributors of the Waqf Fund can be found at the IsDB's website, following the menu on "About IDB," "Specialized Funds," and "AWQAF Properties Investments Funds" (www.isdb.org last accessed: 01.06.2015).

Arab development agency and donor (OFID 2004, IsDB 2010). The largest beneficiaries of the IsDB have been Bangladesh, which received US\$ 580 million during the 1976-2007 period, followed by Morocco and Senegal with around US\$ 500 million each (refer to Figure I.2). Brunei, Suriname and Libya have received the lowest contributions, with a total of less than US\$ 10 million between them during the same time frame. Electricity generation and transmission and transportation infrastructure have been the main priority sectors of the Bank: they account for 41 percent and 35 percent respectively of all resources delivered since the Bank's founding (IsDB 2013b). In fact, one of the two largest loans approved by the IsDB, worth more than US\$ 70 million, was granted to Mali in 2007 to finance the expansion of its power generation network. The other loan, and the largest ever granted by the IsDB, was delivered to Pakistan in 2006, with a value of more than US\$ 80 million, for the reconstruction of a community affected by an earthquake. The smallest IsDB loan registered in the 1976-2007 period supported the organization of a symposium on pollution control held in Jordan in 2004, and the second smallest a training program in the field of energy generation in Turkey in 2004. The amount of each of these loans was less than US\$ 15.000.

I.3. The Argument

Political and commercial interests of donors have often been recognized as a key driver of resources delivered through International Financial Institutions (IFIs). Regional powers may have the opportunity to gain influence in countries in their vicinity through their control over strategic RDB, as these might be advantageous in terms of participation, scope and coverage (Kilby 2006, Lim and Vreeland 2013). Saudi Arabia took the initiative to found and financially lead the IsDB, the first and largest Arab development agency in terms of monetary resources and geographical coverage, most likely seeking to position itself in the Arab region and its periphery. Achieving such an outcome through the Bretton Woods Institutions would be difficult despite Saudi Arabia being a major shareholder as these are virtually dominated by the G7 countries (Copelovitch 2010). Fulfilling and maintaining its role as a leader in Islamic societies is a foreign policy priority for Saudi Arabia and it perceives itself as the principal responsible for the development, cooperation, and support of the region (Al-Yahya and Fustier 2011). As highlighted in the previous section, its substantial contribution in the establishment of the Bank allowed Saudi Arabia to structure it in a way that development projects it strongly opposes are rather difficult to be approved. Therefore, we expect the

allocation of aid by the IsDB to closely mirror the political stance of Saudi Arabia in the Islamic world.

Saudi interests in the Arab region and its periphery are strongly linked with religious beliefs. This is a consequence attributed to the polarization of Islamic societies based on Islamic affiliation in which international political support among equal Islamic denominations is the norm (Clark 2012, Keath 2013). A vast majority of the Muslim population, comprising 95 percent of its total, is affiliated to either the Sunni or Shia branches of Islam, resulting in a fairly clear two-sided division of the Islamic world (Pew Research Center 2009a, 2009b). The Sunni-Shia split can be traced back to the succession dispute to designate the leader of the Muslim community after the death of the Prophet Muhammad in 632 AD (Clark 2012). The appointed nominees were never fully recognized by all of the Prophet's disciples, instigating a division within Muslims according to who was accepted as their legitimate leader. These different groups would evolve into the Sunnis, who fully recognize the appointed nominees, the Shiites, who partially recognized the appointed nominees, and the other minor branches of the Islam (Clark 2012). The foundation and expansion of the different caliphates throughout history have molded the configuration of the Islamic world along its different denominations until the present. Usually, Sunnis have held the power and Shiites have emerged as their opposition (Clark 2012, Abdo 2013). Today, the great majority of countries in the MENA region, as well as many in Central Asia and Sub-Saharan Africa, and a few in Europe, South Asia, and South East Asia, are largely Muslim (Pew Research Center 2009a, 2009b). Significant Muslim minorities, comprising at least 10 percent of the total population, are to be found in numerous additional countries in these same regions and in Latin America, where they usually coexist with either Christians or Hindus. Around 80 percent of the global Muslim population is Sunni and 15 percent Shiite. Shia Islam represents the majority of the Muslim population in Azerbaijan, Bahrain, Iran, and Iraq, more than a third in Kuwait, Lebanon, and Yemen, and at least 5 percent in Afghanistan, Oman, Pakistan, Qatar, Saudi Arabia, Syria, Tajikistan, Tanzania, Turkey, United Arab Emirates, and other countries (Pew Research Center 2009a, 2009b).

Saudi Arabia, with the Salafist stream of Sunni Islam as its state religion whose doctrines are anti-Shiite, is on the forefront to espouse a united Sunni bloc against the "axis of resistance" led by the Shia-affiliated governments of Iran, Syria, and the Shia political party Hezbollah in Lebanon (Clark 2012). Moreover, Saudi Arabia is believed to use development assistance to countries in the region to demonstrate to Shia-affiliated governments that it is the leading nation in the Islamic world (Al-Yahya and Fustier 2011). The Arab Spring, ongoing

since late 2010 in several countries of the MENA region, clearly reflects the polarization of Islamic societies between Sunnis and Shiites. As an example, the government of Bahrain, officially affiliated to the Sunni Islam, has received military support from the Jordanian and Saudi Arabian Sunni regimes to block the revolutionary wave of protests backed by its Shia population (Al Jazeera 2011, Itani 2013). In contrast, the main actors of the Syrian civil war are, on the one side, the Syrian government, Iran and Hezbollah aid forces, all of them Shia-affiliated, and on the other side, the Syrian opposition and militant groups supported by the governments of Qatar and Saudi Arabia, all of which are linked to Sunni Islam (Sanger 2012, DeYoung 2012, Dehghan 2012).

There is plenty of evidence to suggest that Saudi Arabia favors Sunni populations in terms of development cooperation. Ousman (2012), for example, identifies that IsDB resources for education that are aimed to increase school enrolment, are preferably allocated within communities in which the youth follows Salafi principles associated with anti-Shiite tenets. Likewise, Al-Yahya and Fustier (2011) and Burke (2012) agree that the surge in Saudi Arabia's development aid to Yemen in the previous decade through the IsDB and other agencies was in response to the escalation of the armed conflict between the Yemeni government, Sunni-affiliated groups, and Shiite rebel groups in a region bordering the Saudi Kingdom. Cooper (2007) reports that in a desperate bid to keep the Hezbollah-led coalition from obtaining power in Lebanon, Saudi Arabia allocated IsDB resources worth US\$ 250 million to the newly elected Prime Minister Fouad Siniora from the Sunni faction in 2005. Al Arabiya (2013) sustains that funding to Egypt from the IsDB significantly increased in 2012 in order to strengthen the Sunni led government of Mohammed Morsi. Moreover, Deegan (1995) states that Saudi Arabia exerted influence over the IsDB in 1983 to pressure the government of Sudan to declare the country a Sunni based Islamic state in its constitution in return for development assistance. This anecdotal evidence supports the proposition that IsDB lending mirrors the political interests of Saudi Arabia in the Islamic world; namely, Sunni countries receive comparatively more development assistance from the Bank. We thus propose:

Hypothesis 1: Being a Sunni country increases the probability of receiving a higher amount of development aid from the IsDB.

Internal divisions of Muslim societies, however, play a less relevant role in the presence of strong social frictions with non-Islamic communities. "Islamic solidarity" prevails across the different branches of Islam during such periods of conflict in which different Islamic denominations tend to form political coalitions to confront common opponents in

multi religious countries (Abdo 2013). The Lebanese Civil War, lasting from 1975 to 1990, is a notable example of how Sunni and Shia populations interact in the face of tensions with other religions. Lebanon is a country shared by Christians, Sunni and Shia Muslims, and during the Civil War both Muslim populations cooperated with each other to confront the common Christian adversary. Together they formed the Lebanese National Resistance Front, a militia seeking to overthrow the Christian-dominated government (Ghorbani et al. 2014). Additional evidence suggests that Saudi led development agencies provide assistance in response to tensions with non-Muslims. Robles (2007), for example, reports that the IsDB provided US\$16 million to the Moro National Liberation Front (MNLF) rebel group, which controls the Mindanao province in the Philippines, whose population is largely comprised of Muslims of different denominations. The MNLF is a political organization founded in 1969 that promotes the independence of their region from the Philippines alleging that the government economically discriminates against Muslims. Similarly, the Royal Thai Embassy (2012) reports the funding of educational projects by the IsDB among Muslim communities in the province of Pattani in Thailand, in which local rebel groups struggle for regional autonomy. Al-Yahya and Fustier (2011) describes another example, indicating that the Saudi government makes substantial contributions to the United Nations Relief and Works Agency for Palestine Refugees, from which individuals affiliated to different Islamic denominations receive assistance. Therefore, Islamic solidarity is likely to dominate in the presence of conflict with other religious groups, and this leads us to the following:

Hypothesis 2: The politics of the Sunni-Shia divide do not influence IsDB aid allocation decisions in the presence of religious tensions with non-Muslim religious communities.

I.4. Data and Methods

We analyze a panel dataset consisting of 56 member countries covering the years from 1976 to 2007.⁸ Our model estimates the allocation of resources by the IsDB as a function of factors capturing donor and recipient characteristics. The dependent variable measures IsDB aid commitments to country i in period t expressed in logarithmic form and in year 2000 constant

⁸ Palestinian Administrated Areas is an active member of the IsDB, however, it cannot be included in the empirical analysis given the unavailability of data for our control variables.

US dollars.⁹ Note that our panel is unbalanced given different membership dates of recipient countries and missing observations. From a possible maximum of 32, the average number of years per member country for which information on commitments is available is around 16, ranging from 2 (Brunei) to 29 (Senegal). We consider 4-year averages for our dependent variable in order to balance the panel, reducing it to 8 periods: 1976-1979, 1980-1983, 1984-1987, 1988-1991, 1992-1995, 1996-1999, 2000-2003, and, 2004-2007. Under this structure, the average number of periods per member country is greater than 6 and for almost half of the recipients there is full information. Another distinguishing feature of our dependent variable is that it includes zero observations. The clustering in this lower limit responds to the fact that IsDB aid commitments to certain countries for several years was simply zero. Analyzing such a model with an Ordinary Least Squares (OLS) estimator would violate several assumptions, such as zero mean errors, thereby resulting in biased estimates (Neumayer 2002, 2003). This feature makes it necessary to use a nonlinear estimation method; therefore we follow Beck and Katz (1995) and adopt a Tobit maximum likelihood estimator with heteroskedasticity consistent robust standard errors. The following equations are estimated:

$$\text{Loan}_{it} = \beta_0 + \beta_R R_{it} + \beta_X X_{it} + \gamma_t + \varepsilon_{it} \quad (1)$$

$$\text{Loan}_{it} = \beta_0 + \beta_{RT} R_{it} * T_{it} + \beta_T T_{it} + \beta_X X_{it} + \mu_i + \gamma_t + \varepsilon_{it} \quad (2)$$

Loan_{it} is the dependent variable, R_{it} is a matrix containing different variables accounting for religion based characteristics of member country i in period t , T_{it} is an indicator measuring religious tensions, and X_{it} is a matrix of control variables. The intercept is referred to as β_0 , the remaining β s are the vectors of coefficients of the corresponding matrices, μ_i and γ_t denote country and time fixed effects respectively, and ε_{it} is the error term. Note that we include country fixed effects only in (2), which includes the interaction term, because the variables in R_{it} are often time invariant. The usage of two way fixed effects in (1) will not only be collinear with time invariant regressors but will also generate biased estimates with largely time invariant regressors (Beck 2001). Additionally, the coefficients in the β vectors cannot be interpreted directly in the nonlinear Tobit model. We thus compute the marginal effects of the explanatory variables on either $P(y_{it} > |x_{it})$, $E(y_{it} > |x_{it}, y_{it} > 0)$ or $E(y_{it} |x_{it})$.¹⁰ We

⁹ A value of one is added to the dependent variable before its logarithmic transformation, in order to keep zero observations.

¹⁰ For our model, y_{it} corresponds to the dependent variable Loan_{it} and x_{it} for any variable in R_{it} , T_{it} or X_{it} .

calculate the marginal effects at the mean of the respective covariates and report these in the regression output tables.¹¹

In order to test our first hypothesis, we introduce four different discrete measures capturing the religion-based characteristics of recipients. The first two measures consider the religious affiliation of the population. Here, a variable receives the value of one if the majority of the population in a member country is Sunni and zero otherwise. The other variable is one if the majority of the population in a member country is Shiite and zero otherwise. The baseline and omitted category receives the value of one if the majority of the population in a member country is non-Muslim and zero otherwise.¹² The information to construct these variables comes from the religious population statistics published by the Pew Research Center. Please note that during our period of analysis demographic changes based on religious affiliation have not been pronounced in any of the recipients, therefore none of the population-based variables change over time. The following two measures consider the religious affiliation of the head of government. We decided to include this characteristic in our analysis given that in some countries, such as in Bahrain and Syria, the religious affiliation of the majority of the population and that of the head of government does not coincide. Likewise, a variable takes the value of one if the religious affiliation of the head of the state is Sunni and zero otherwise, and the other variable is one if the religious affiliation of the head of the state is Shia and zero otherwise. In this case, the baseline and omitted category receives the value of one if religious affiliation of the head of the state is different to Muslim and zero otherwise.¹³ In order to construct these variables, we consulted the profiles of the head of governments available in the CIA World Factbook and Encyclopedia Britannica. For most of the member countries, these variables do not change over time. In our sample,

¹¹ Regarding the time dummy variables, marginal effects are calculated at a specific period rather than at the mean value. We take the most recent 2004-2007 period for this purpose, but the results remain similar if any other period is taken instead.

¹² All IsDB member countries fall exclusively into one of these three categories, except for Lebanon and Oman. None of Lebanon's main population groups, Christians, Shiites and Sunnis, make up at least 50 percent of the total population. We code this country in the baseline category, or as a non-Muslim majority populated country, given that the largest of the three groups is by far the Christians (Pew Research Center 2009a, 2009b). Oman's population is largely Ibadi-affiliated, another Islam denomination. We coded it in the second category, along with the Shia majority populated countries, given that it is a Muslim majority populated country affiliated to a denomination different to that of Saudi Arabia's.

¹³ As for the population-based variables, Oman does not fall in any of these three categories. The religious affiliation of the head of the state is Ibadi Islam, and it is coded under the second category, along the Shia regime countries.

changes of regime based on religion are found in few cases, such as in Iraq in 2003, and in Lebanon in 1988 and 1990.

Figure I.3 presents the distribution of IsDB loan commitments according to the religious affiliation of the recipients' populations. As can be seen, the average Sunni majority populated member country obtained US\$ 13 million each year from the Bank during the 1976-2007 period. The same figure for Shia and non-Muslim majority populated countries is US\$ 9.8 million and US\$ 8.5 million respectively. Figure I.4 reports similar statistics taking into account the religious affiliation of the head of government. Differences between the three groups follow the same pattern but are less pronounced: member countries in which the head of government is Sunni-affiliated received on average US\$12.8 million every year from the Bank, while those in which the head is Shia and non-Muslim affiliated received US\$ 10.5 million and US\$ 8.8 million respectively. These numbers reveal the expected pattern from our first hypothesis. The statistical significance of these categories are reported and discussed in the next section.

The term T_{it} in (2) is included to test our second hypothesis. Here we interact a measurement of religious tensions with the two dummy variables signaling if a member is a Shia country according to its population and head of government. We take the Religious Tensions Index from the International Country Risk Guide (ICRG), which takes a minimum value of 0 for cases of highest religious tensions and a maximum value of 6 for cases of absence of religious tensions. The indicator only captures tensions between different religions and not within groups belonging to different Islamic denominations. The Index is only available since 1985; therefore we lose the first two periods in our panel when adding the interaction term.

We add a second dimension in Figure I.5 to present the distribution of resources. It shows the allocation of IsDB loan commitments considering the religious affiliation of the population as well as the level of religious tensions in the recipient country. Darker bars denote periods of higher religious tension, or years in which the Index takes a value between 0 and 3. Lighter bars denote for periods of lower religious tension, or years in which the Index takes a value between 3 and 6. As the figure shows, Sunni and non-Muslim majority populated countries receive fewer resources from the Bank in periods of higher religious tension, US\$ 13 million vs. US\$ 12.5 million and US\$ 9 million vs. US\$ 6.8 million respectively, on average every year and per member country over the 1985-2007 period. The opposite occurs in Shia majority populated countries: these receive larger IsDB loan commitments in periods of higher religious tension, US\$ 9.7 million vs. US\$ 10.4 million on

average during the same time period. Note that the greatest contrast in terms of religious tension is found in non-Muslim majority populated countries. Similarly, Figure I.6 presents the distribution of IsDB loan commitments according to the religious affiliation of the head of government and the level of religious tension. The numbers resemble that of the previous figure, however variation between periods of higher and lower religious tensions are less pronounced, in absolute as well as in percentage terms. These patterns suggest that our second hypothesis is not rejected and Shia member countries seem to be supported during periods of conflict with other religions. In the next section we test whether these differences are statistically significant.

We follow the literature on aid allocation by RDBs (Kilby 2006, 2011a, Hernandez 2013), Arab donors (Neumayer 2003, 2004) and other non-DAC donors (Fuchs and Vadlamannati 2013) in selecting our control variables. To reflect recipient needs, we include the total population and GDP per capita in current prices in member countries, both in log form. Total population is expected to be positively associated with loan commitments as this variable accounts for country size. The effect of GDP per capita should be negative given that richer countries are less likely to need aid resources to develop. Ideally, GDP per capita would be given in constant prices to avoid any time trend distortions, however, employing such measurement would reduce our dataset considerably due to data availability. The inclusion of time fixed effects facilitates to overcome this issue. We include measures of institutional quality and political stability in member countries to account for merit as a motive for the supply of aid. The first measurement is a democracy dummy variable taken from Cheibub et al. (2010) based on the distinction between regimes where executive and legislative offices are designated via elections and those where they are not. If elections are contested in a member country for a given year the variable takes the value of one in that observation, and zero otherwise.¹⁴ The second measure addresses the incidence of a civil war as found in Gleditsch et al. (2002). The dummy variable takes the value of one if there is an armed conflict between the state and an organized group causing at least 25 deaths in a single year in a member country, and zero otherwise. Moreover, we include two variables controlling for Saudi strategic interests in member countries, namely Saudi Arabian bilateral aid in constant prices and logarithmic form, and merchandise trade relative to GDP. Bilateral aid allocation by Saudi Arabia is a proxy for its political interests, as bilateral aid is often regarded as a

¹⁴ For more detailed description and methodology, see Cheibub et al. (2010).

reward for political allies (Kilby 2006, 2011a).¹⁵ Merchandise trade relative to GDP accounts for trade openness in recipient countries and also for commercial interests with members of the Bank. Merchandise trade is preferred over total trade due to data availability reasons. We expect these two variables to be positively correlated with IsDB loan commitments. Finally, we include three additional variables as loan demand factors. Obtained from De Soysa and Binningsbo (2012), the first of these factors is the value of oil production in a member country for a given year. Many of the member countries are rich in oil and the greater a country's oil production the lower the likelihood that it will be dependent on development assistance. The remaining two measures control for international reserves as a share of GDP and for debt crises following the dichotomous variable in Laeven and Valencia (2008). We expect these last two variables to take a negative and a positive sign respectively. We provide details on definitions and data sources in Appendix I.2, and descriptive statistics in Appendix I.3.

I.5. Empirical Results

Tables I.1, I.2, and I.3 present our main findings. Table I.1 shows the outcome from our data analysis for equation (1), testing for our first hypothesis. Here we introduce all variables that describe the religious affiliation of the population and that of the head of government described in section 4. Results for equation (2) including our interaction with the Religious Tensions Index and testing of our second hypothesis are displayed in Tables I.2 and I.3. Table I.2 presents this analysis based on population characteristics, while Table I.3 presents it based on information on the head of government. All models are initially estimated using all control variables whereas a short form of the model is always shown in contiguous columns. The short form models control only for recipient needs, namely population and GDP per capita. The three tables report the marginal effects at the mean of the respective covariates, while subsequent graphs exhibit the evaluation of the marginal effects at different levels to address the interaction term in (2). Note that the dataset in Table I.1 is one third larger than that of Tables I.2 and I.3 because the Religious Tensions Index is only available from 1985 onwards. Values in parentheses refer to p-values.

Column 1 in Table I.1 reports results from the regression adding the Sunni and Shia majority population variables, taking non-Muslim populated countries as a baseline category.

¹⁵ As Saudi Arabia is a recipient country itself, observations for this country consist of the largest bilateral allocation made by Saudi Arabia in each year. The exclusion of this variable in the analysis does not affect the results.

Column 3 contains the Sunni and Shia regime variables, taking non-Muslim regime countries as a baseline category. Population and head of government characteristics are included in separate specifications because of the high level of correlation between them.¹⁶ As can be seen in column 1, both Sunni and Shia majority populated countries receive significantly more resources, at conventional levels, from the IsDB than non-Muslim majority populated countries. The interpretation of the marginal effects reveals that being a Sunni majority populated country increases the flow of resources from the Bank by 69 percent, relative to non-Muslim majority populated countries, while the figure for being a Shia majority populated country is 126 percent. A Wald test comparing both marginal effects confirms, however, that their difference is not statistically significantly different from zero.¹⁷ Column 3 indicates that the IsDB allocates significantly larger loans to Sunni regime countries, at the 5 percent level, relative to non-Muslim regime countries, but not to Shia regime countries at conventional significance levels. In fact, the marginal effects suggest that countries in which the head of government is affiliated to the Sunni branch of Islam obtain on average 78 percent larger commitments relative to those not affiliated to any Islamic denomination. Results remain stable in terms of sign, size, and significance levels when employing the short form, as shown in columns 2 and 4. It is important to note that population and GDP per capita, in the complete and short forms respectively, are the only statistically significant control variables at conventional levels, both taking the expected sign. These initial findings lend support to our first hypothesis that the IsDB favors member countries whose heads of state are Sunni Islam affiliated. Population characteristics show, however, that both Sunni and Shia countries are favored relative to the non-Muslim. The following analysis reveals to what extent these results are conditional on religious tensions.

Data analysis for equation (2), in which the Shia majority population dummy is interacted with the Religious Tensions Index, is presented in Table I.2. The models in columns 1 and 2 exclude country fixed effects, while those in columns 3 and 4 include them. The table displays marginal effects. Figures for the Shia majority populated variable are evaluated at the mean value of the Religious Tensions Index.¹⁸ The Sunni majority population variable remains significant at the 1 percent level for both models without country fixed

¹⁶ Correlation between the Sunni majority population and Sunni regime dummy variables is higher than 0.7, and higher than 0.5 between the Shia majority population and Shia regime dummy variables.

¹⁷ The Wald test implemented evaluates the null hypothesis $H_0: \beta_1 = \beta_2$. The F-statistic obtained in the test is equal to 0.78 with a corresponding p-value of 0.38.

¹⁸ Tables I.2, I.3 and I.4 display the marginal effect of the respective interacted variable on IsDB loan commitments and evaluated at the mean value of the Religious Tension Index. Figures I.7, I.8, I.9 and I.10 display the marginal effect evaluated at other different values of the Religious Tensions Index.

effects, and is significant at the 10 percent level for the short form model with country fixed effects. It is highly likely that the lower p-values for this variable in both models including country fixed effects are a consequence of this being time invariant. Similarly, the Shia majority population variable is significant at the 5 percent significance level across all specifications, except one. As noted earlier, the marginal effect is evaluated at the mean value of the Index. The Religious Tensions Index enters all regressions with a negative sign, but fails to be significant at conventional levels throughout. The direction and relevance of the interaction term in equation (2) is exhibited in Figures I.7 and I.8. Here we evaluate the marginal effect of the Shia majority population variable at different points along the range of the Religious Tensions Index.¹⁹ Figure I.7 refers to the model excluding country fixed effects in column 1 and Figure I.8 to that including them in column 3. The continuous lines correspond to average values for every point while dashed lines project 90 percent confidence interval boundaries. As can be seen in Figure I.7, the marginal effect of the Shia majority population variable on IsDB loan commitments is positive and significant at conventional levels only for lower values of the Religious Tensions Index (i.e. for higher levels of religious tensions). The marginal effect turns out to be insignificant at conventional levels after the Index takes a value of around 4. Figure I.8 confirms that this effect is robust after controlling for country fixed effects, but only until an Index level of around 2.5, as the marginal effects of the Shia population dummy variable remain significant at conventional levels just until this point. A little less than 25 percent of all observations in our data set fall between levels of 0 and 2.5 in the Index. The effect of the interaction term remains similar in terms of size and significance levels when employing the short form model in columns 2 and 4.²⁰ This empirical evidence supports our second hypothesis: Shia majority populated member countries, relative to non-Muslim countries, receive more IsDB resources only when they experience high levels of religious tensions with other non-Muslim religious groups.

Results for equation (2), including information on the religious affiliation of the head of government in member countries, are presented in Table I.3. Similarly to the previous analysis, the table reports marginal effects, columns 1 and 2 present specifications excluding country fixed effects, while columns 3 and 4 including them. The Shia regime variable is

¹⁹ When the model is nonlinear, as is the case here, the interaction effect cannot be evaluated simply by looking at the sign, magnitude, or statistical significance of the coefficient on the interaction term. Instead, the interaction effect requires computing the marginal effects of the first variable in the interaction term evaluated at different points of the other variable in the interaction term (Ai and Norton 2003).

²⁰ For simplicity, these results are not shown but are available upon request.

interacted with the Religious Tensions Index in all model specifications. Figures in the Shia regime (dummy) row correspond to the marginal effect evaluated at the mean value of the Religious Tensions Index. As observed in the table, a major difference between this table and the analysis on population characteristics is that the Shia regime variable fails to be significant at conventional levels in all model specifications but one. Figures I.9 and I.10, depicting the marginal effect of the Shia regime variable at different levels of the Religious Tensions Index, reveal another difference. As can be seen in Figure I.9, the effect of the Shia regime variable is only significant at conventional levels for a short range of the Index in the model excluding fixed effects. This is, however, not robust to the addition of fixed effects, as shown in Figure I.10. These results hold with the short form model. Interestingly, even when religious tensions are present, those countries with a Shia-affiliated head of government do not obtain larger loans from the IsDB than non-Muslim countries. Our second hypothesis is therefore rejected when taking into account the profile of the head of government in member countries. Thus, it is never advantageous in terms of IsDB allocation to be a Shia regime. Religious tensions between Shiites and non-Muslims seem to be a concern for the IsDB when the population of a member country is largely Shia, but not when its head of government is Shia-affiliated.

We replicate our models reported in Tables I.1 to I.3 with an OLS estimator and relax some assumptions in our dataset. Our main findings are not altered when implementing the regression with OLS in every case, suggesting that our results are robust to the choice of estimator. Moreover, we use different combinations of the set of control variables. Leaving recipient needs as fixed controls, we first include merit-based variables, then Saudi Arabian interests, and finally loan demand factors separately. We observe that the effect of our key explanatory variables remains unchanged; therefore our analysis is robust to the selection of control variables. Due to brevity, we do not report these last two robustness tests, but these are available upon request.

In order to identify the relative advantage for Saudi Arabia to exert influence in its vicinity based on religious affinity through the IsDB compared to the World Bank, we replace our dependent variable with aid commitments from the latter organization. If the previously identified politics of the Sunni-Shia divide are inherent to the Saudi led financial institution, then the World Bank's aid commitments must not be influenced by any of our main variables of interest. Using exactly the same model setting, we regress World Bank aid commitments, expressed in logarithmic form and in year 2000 constant US dollars, against our variables of interest. We analyze, as before, allocations to the 56 member countries over the 1976-2007 period, employing 4 year averages. The results are reported in Table I.4. Columns 1 and 3

refer to equation (1), while columns 2 and 4 to equation (2) after adding the Religious Tensions Index. The four model specifications include all control variables and exclude country fixed effects. The table shows marginal effects at the mean of the respective covariates. As in the previous analysis, the figures for the Shia majority population variable in column 2 and the Shia regime variable in column 4 exhibit their marginal effect on World Bank aid commitments evaluated at the mean value of the Religious Tension Index. As can be seen in the table, none of our variables capturing population and head of government characteristics according to religious belief are significant at conventional levels. Even the population-based variables enter the equations with a negative sign, as shown in columns 1 and 2. The Religious Tensions Index fails to be significant at conventional levels as well. The marginal effects of the Shia majority population and Shia regime dummies are not significant at the mean value of the Religious Tensions Index, as can be seen in the table, or when evaluated at any point along the Index. The latter results are not shown for simplicity, but are available upon request. Interestingly, besides Population and GDP per capita, unlike for the IsDB, other control variables turn out to be significant at conventional levels. Particularly relevant is the incidence of civil war, which is negative and significant at least at the 5 percent level across all regressions. These findings suggest that World Bank lending patterns do not reflect religiously-motivated political dynamics in the Arab region and its periphery, and support our hypothesis that these are inherent to the IsDB due to the dominance of Saudi Arabia in its organization.

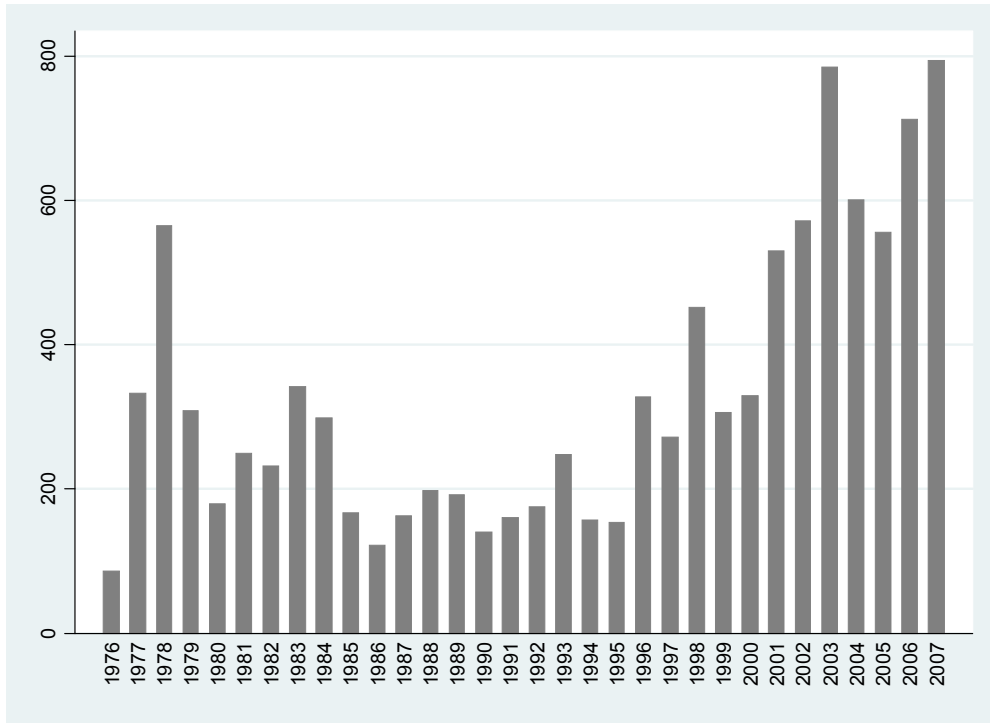
I.6. Conclusions

The ability of major global players to control IFIs has been suggested to ensure their engagement in international cooperation as well as the survival of these organizations. An affordable alternative for regional powers to exert influence over their vicinity is to assume the leadership of an RDB in contrast to strengthening its participation in a global IFI. In this chapter we find evidence of the advantages Saudi Arabia might meet in this respect to position its interests in the Arab region and its periphery. In particular, we observe that Saudi Arabia uses the IsDB to achieve regional hegemony founded on religious affinity. We also find that it does not achieve the same ends with its participation in the World Bank, where it is arguably challenging to coordinate common strategies with other large shareholders for whom religion is not essential for political alliances.

The analysis of aid allocation by the IsDB to its 56 members during the 1976-2007 period reveals a bias towards Sunni countries, and towards Shia countries in exceptional occasions, while non-Muslim countries are the least favored. These lending patterns closely mirror the political stance of Saudi Arabia in the Islamic world. Specifically, the IsDB delivers on average 78 percent more resources to member countries in which the head of government is Sunni-affiliated. Member countries with Shia majority populations experience significant increases in lending from the Bank only when religious tensions with non-Muslim communities are high. Interestingly, along with country size, religious affiliation is the core driver of IsDB aid commitments. In contrast, World Bank allocation decisions are not influenced by the religious characteristics of the same group of recipient countries during the same time frame: merit and loan demand factors explain its lending. We thereby recognize the incentives for Saudi Arabia to found and financially lead a RDB in its region of influence.

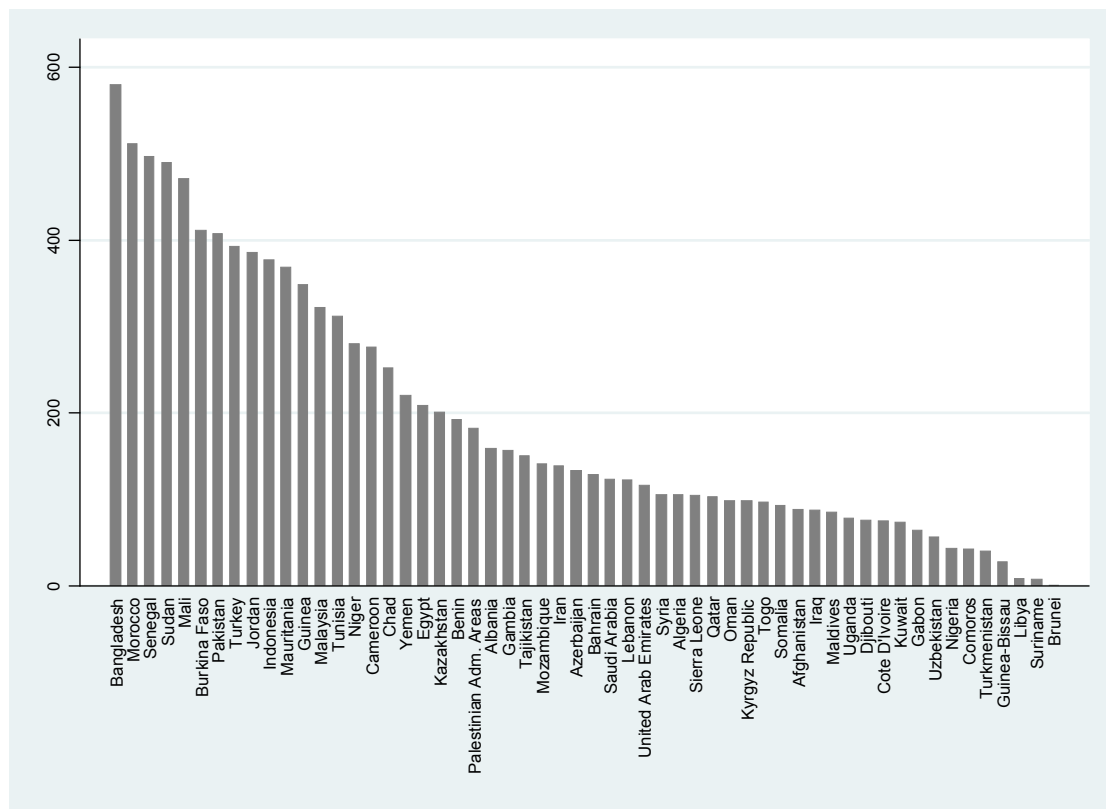
Lending patterns of IFIs are a result of the interplay of influences of a handful of large shareholders. Saudi Arabia pursues its political agenda in the Islamic world without the intervention of G7 countries through the IsDB, creating a set of advantaged and disadvantaged member countries within the institution. Despite being the third largest shareholder of the Bank, Iran belongs to the latter group and its interests are probably underrepresented in allocation decisions. Not surprisingly, Iran together with two other countries in the region, founded in 1985 the Economic Cooperation Organization, an IFI serving eleven countries which are also members of the IsDB. Since then, its operations have been expanding in terms of resources and membership. The development aid activity will very likely witness the proliferation of specialized development agencies under the control of rising developing countries in the near future. This trend will only cease with the willingness of powerful countries to democratize IFIs.

Figure I.1: IsDB Commitments, Total by Year



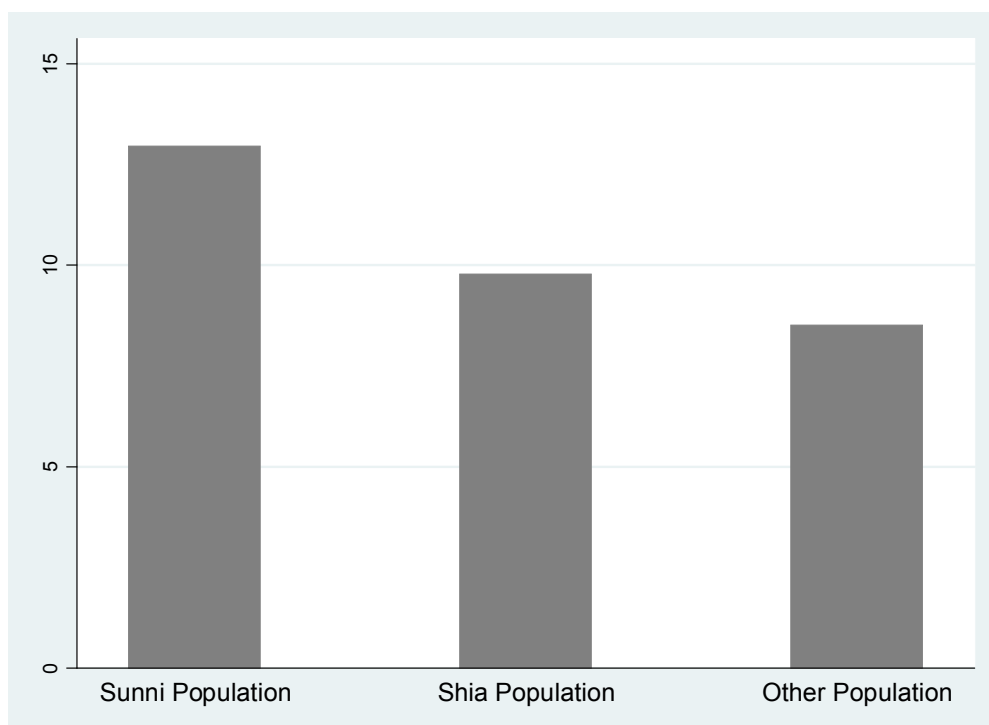
Notes: The graph shows loan commitments approved by the Islamic Development Bank (IsDB) in each year for the 1976-2007 period. Figures are given in millions of constant US dollars (base year 2000). Source: IsDB, OECD.

Figure I.2: IsDB Commitments in 1976-2007, Total by Borrowing Member



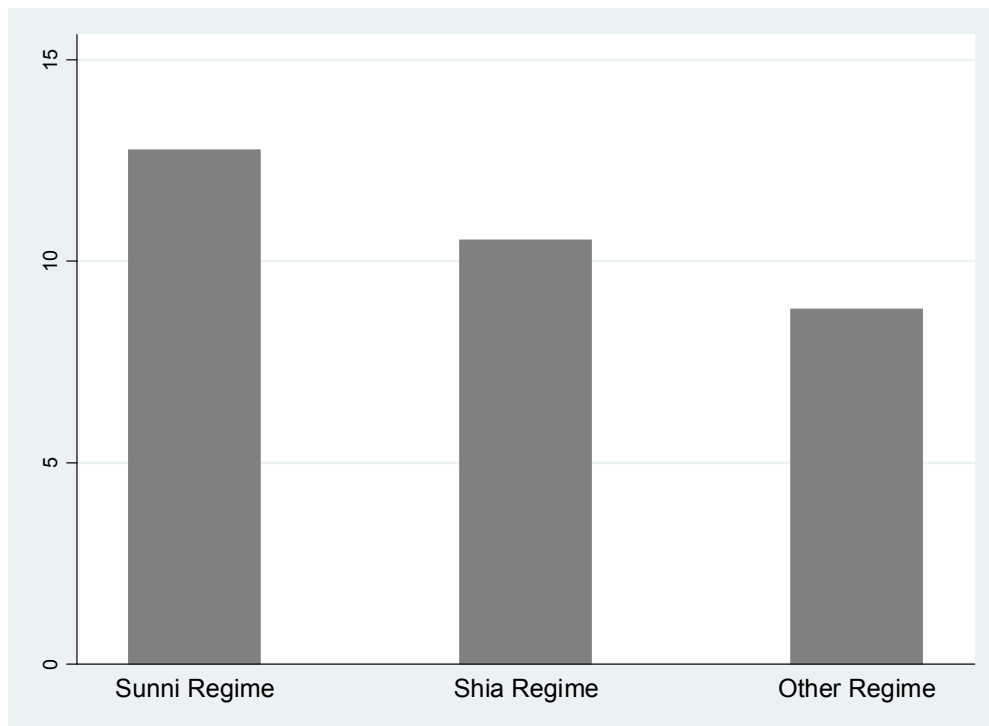
Notes: The graph shows loan commitments approved by the Islamic Development Bank (IsDB) to each borrowing member over the 1976-2007 period. Figures are given in millions of constant US dollars (base year 2000). Source: IsDB, OECD.

Figure I.3: IsDB Commitments in 1976-2007, Average by Religious Affiliation of Population in Borrowing Member



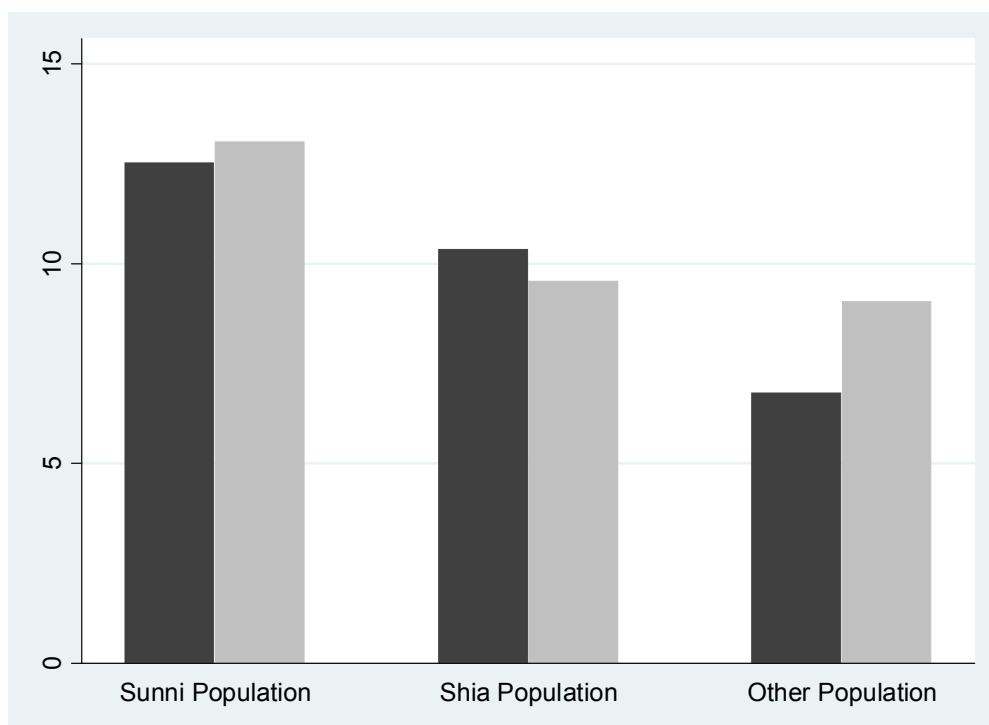
Notes: “Sunni Population” identifies borrowing members where at least 50 percent of the population is affiliated to Sunni Islam, “Shia Population” identifies borrowing members where at least 50 percent of the population is affiliated to Shia Islam or any other Islam denomination different to Sunni Islam, and “Other Population” identifies borrowing members where at least 50 percent of the population is affiliated to a religion other than Islam. Figures are given in millions of constant US dollars (base year 2000). Source: IsDB, OECD, Pew Research Center.

Figure I.4: IsDB Commitments in 1976-2007, Average by Religious Affiliation of Head of Government in Borrowing Member



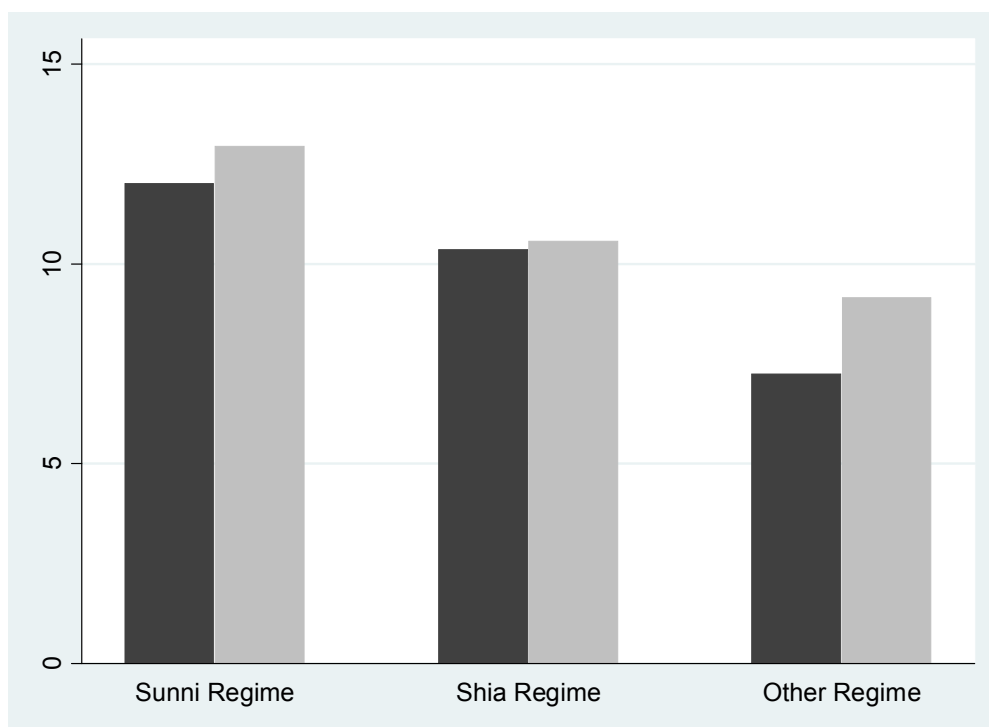
Notes: “Sunni Regime” identifies borrowing members whose head of government is affiliated to Sunni Islam, “Shia Population” identifies borrowing members whose head of government is affiliated to Shia Islam or any other Islam denomination different to Sunni Islam, and “Other Population” identifies borrowing members whose head of government is affiliated to a religion other than Islam. Figures are given in millions of constant US dollars (base year 2000). Source: IsDB, OECD, CIA World Fact Book, Encyclopedia Britannica.

Figure I.5: IsDB Commitments in 1976-2007, Average by Religious Affiliation of Population in Borrowing Member and Religious Tensions



Notes: The graph shows loan commitments approved by the Islamic Development Bank (IsDB) to each borrowing member whose population is of a certain religious affiliation and confronting a determined level of religious tensions, on average every year over the 1976-2007 period. “Sunni Population” identifies borrowing members where at least 50 percent of the population is affiliated to Sunni Islam, “Shia Population” identifies borrowing members where at least 50 percent of the population is affiliated to Shia Islam or any other Islam denomination different to Sunni Islam, and “Other Population” identifies borrowing members where at least 50 percent of the population is affiliated to a religion different to Islam. Dark bars denote for borrowing members experiencing high religious tensions in a given year (Religious Tensions Index between 0 and 3), light bars denote for borrowing members experiencing low religious tensions in a given year (Religious Tensions Index between 3 and 6). Figures are given in millions of constant US dollars (base year 2000). Source: IsDB, OECD, Pew Research Center, ICRG.

Figure I.6: IsDB Commitments in 1976-2007, Average by Religious Affiliation of Head of Government in Borrowing Member and Religious Tensions



Notes: The graph shows loan commitments approved by the Islamic Development Bank (IsDB) to each borrowing member whose head of government is of a certain religious affiliation and confronting a determined level of religious tensions, on average every year over the 1976-2007 period. “Sunni Regime” identifies borrowing members in which the head of stat is affiliated to Sunni Islam, “Shia Regime” identifies borrowing members in which the head of government is affiliated to Shia Islam or any other Islam denomination different to Sunni Islam, and “Other Population” identifies borrowing members in which the head of the state is affiliated to a religion different to Islam. Dark bars denote for borrowing members experiencing high religious tensions in a given year (Religious Tensions Index between 0 and 3), light bars denote for borrowing members experiencing low religious tensions in a given year (Religious Tensions Index between 3 and 6). Figures are given in millions of constant US dollars (base year 2000). Source: IsDB, OECD, Pew Research Center, ICRG.

Table I.1: IsDB Commitments and Religious affiliation of Population and of Head of Government in Borrowing Member, Tobit, 1976-2007

	(1)	(2)	(3)	(4)
Population (log)	0.244*** (0.0053)	0.163*** (0.001)	0.223*** (0.0098)	0.165*** (0.0008)
GDP per capita (log)	-0.0959 (0.4028)	-0.172** (0.0303)	-0.118 (0.2988)	-0.163** (0.0303)
Democracy (dummy)	-0.256 (0.3541)		-0.268 (0.3364)	
Civil war (dummy)	0.0227 (0.9031)		0.0585 (0.7451)	
Saudi Arabia aid (log)	-0.00643 (0.7298)		-0.00973 (0.6053)	
Trade to GDP	0.00284 (0.3986)		0.00376 (0.2669)	
Oil production (log)	-0.0162 (0.1929)		-0.0109 (0.4002)	
Int. Reserves to GDP	-0.00914 (0.2248)		-0.0112 (0.1233)	
Debt crisis (dummy)	0.246 (0.7925)		0.203 (0.8269)	
Sunni population (dummy)	0.523** (0.0247)	0.538** (0.0169)		
Shia population (dummy)	0.816* (0.0548)	0.714* (0.0562)		
Sunni regime (dummy)			0.584** (0.0164)	0.541** (0.0262)
Shia regime (dummy)			0.536 (0.1255)	0.472 (0.1494)
Observations	306	327	306	327
Country fixed effects	No	No	No	No
Time fixed effects	Yes	Yes	Yes	Yes

Notes: The dependent variable is the loan commitments approved by the Islamic Development Bank (IsDB) to borrowing member i in period t , denominated in constant US dollars (base year 2000) and in logarithmic scale. Marginal effects are reported. P-values are shown in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table I.2: IsDB Commitments, Religious Affiliation of Population in Borrowing Member and Religious Tensions, Tobit, 1976-2007

	(1)	(2)	(3)	(4)
Population (log)	0.221*	0.0899	2.068	2.354
	(0.0839)	(0.2644)	(0.2227)	(0.1409)
GDP per capita (log)	-0.132	-0.269***	-0.308	-0.561*
	(0.3625)	(0.0019)	(0.3796)	(0.0786)
Democracy (dummy)	-0.326		0.363	
	(0.3134)		(0.1898)	
Civil war (dummy)	-0.0273		-0.128	
	(0.9205)		(0.6536)	
Saudi Arabia aid (log)	-0.00871		0.0240	
	(0.7150)		(0.2803)	
Trade to GDP	0.000694		0.0128	
	(0.8656)		(0.1828)	
Oil production (log)	-0.0269		0.00891	
	(0.1405)		(0.7009)	
Int. Reserves to GDP	-0.00659		0.00412	
	(0.4212)		(0.6583)	
Debt crisis (dummy)	1.259		-0.684	
	(0.4063)		(0.6863)	
Sunni population (dummy)	0.905***	0.882***	0.279	1.409*
	(0.0020)	(0.0014)	(0.7785)	(0.0848)
Shia population (dummy)	1.533***	1.036**	5.130	7.676**
	(0.0040)	(0.0156)	(0.1947)	(0.0373)
Religious Tensions	-0.0497	-0.0146	-0.0680	-0.0681
	(0.5839)	(0.8509)	(0.5659)	(0.5480)
Observations	207	215	207	215
Country fixed effects	No	No	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes

Notes: The dependent variable is the loan commitments approved by the Islamic Development Bank (IsDB) to borrowing member i in period t , denominated in constant US dollars (base year 2000) and in logarithmic scale. Specifications 3 and 4 control for country fixed effects. Marginal effects are reported. Shia population (dummy) is interacted with Religious Tensions. Marginal effect of Shia population (dummy) at the mean value of Religious Tensions is reported. P-values are shown in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table I.3: IsDB Commitments, Religious Affiliation of Head of Government in Borrowing Member and Religious Tensions, Tobit, 1976-2007

	(1)	(2)	(3)	(4)
Population (log)	0.168 (0.1743)	0.111 (0.1533)	2.084 (0.2189)	2.633 (0.1068)
GDP per capita (log)	-0.214 (0.1825)	-0.264*** (0.0016)	-0.127 (0.7481)	-0.251 (0.5283)
Democracy (dummy)	-0.375 (0.2594)		0.428 (0.1275)	
Civil war (dummy)	0.149 (0.5608)		-0.0447 (0.8822)	
Saudi Arabia aid (log)	-0.0116 (0.6310)		0.0339 (0.1623)	
Trade to GDP	0.00419 (0.3156)		0.0129 (0.2070)	
Oil production (log)	-0.0161 (0.4255)		0.0163 (0.4943)	
Int. Reserves to GDP	-0.0114 (0.1727)		0.00266 (0.8290)	
Debt crisis (dummy)	0.876 (0.5794)		-0.859 (0.6095)	
Sunni regime (dummy)	1.041*** (0.0011)	0.929*** (0.0033)	-0.783 (0.7907)	-1.391 (0.4326)
Shia regime (dummy)	0.769 (0.1328)	0.811** (0.0471)	2.495 (0.4674)	1.890 (0.4101)
Religious Tensions	0.0383 (0.6793)	0.0250 (0.7471)	0.0342 (0.7897)	0.0277 (0.8238)
Observations	207	215	207	215
Country fixed effects	No	No	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes

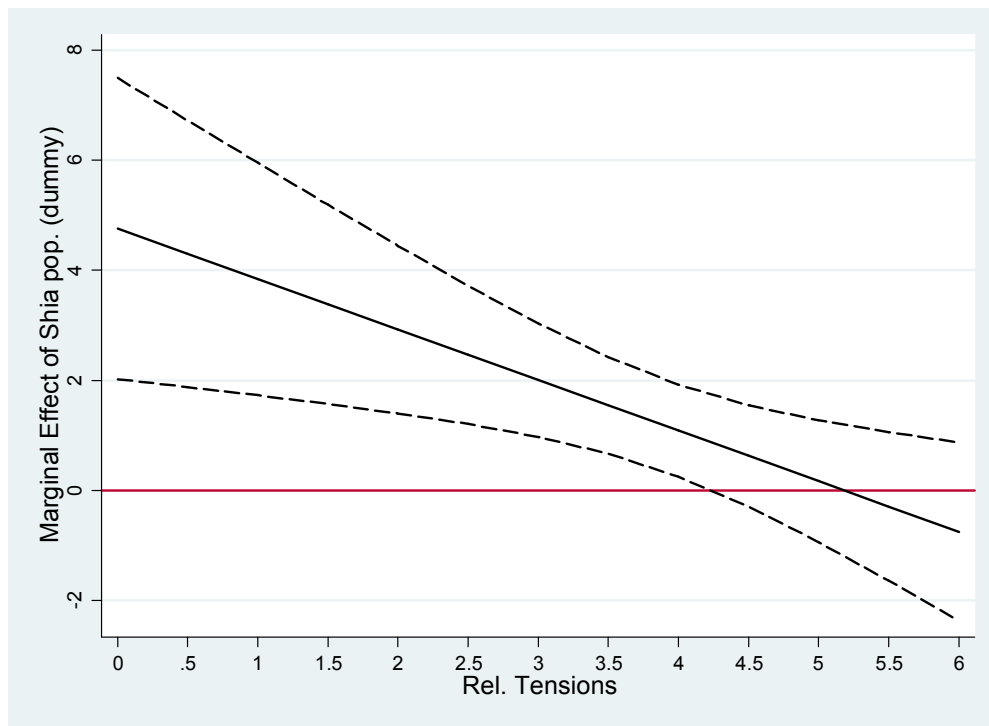
Notes: The dependent variable is the loan commitments approved by the Islamic Development Bank (IsDB) to borrowing member i in period t , denominated in constant US dollars (base year 2000) and in logarithmic scale. Specifications 3 and 4 control for country fixed effects. Marginal effects are reported. Shia regime (dummy) is interacted with Religious Tensions. The marginal effect of Shia regime (dummy) at the mean value of Religious Tensions is reported. P-values are shown in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table I.4: World Bank Commitments, Religious Affiliation of Population and of Head of Government in Borrowing Members, Tobit, 1976-2007

	(1)	(2)	(3)	(4)
Population (log)	2.587*** (0.0000)	3.342*** (0.0000)	2.627*** (0.0000)	3.389*** (0.0000)
GDP per capita (log)	-2.808*** (0.0000)	-2.050*** (0.0037)	-2.896*** (0.0000)	-2.029** (0.0110)
Democracy (dummy)	1.173 (0.2165)	1.809 (0.1089)	1.264 (0.1867)	1.816 (0.1150)
Civil war (dummy)	-4.631*** (0.0001)	-3.145** (0.0293)	-5.062*** (0.0000)	-3.270** (0.0265)
Saudi Arabia aid (log)	0.277** (0.0143)	0.206 (0.1688)	0.282** (0.0138)	0.200 (0.1880)
Trade to GDP	-0.0172 (0.3254)	-0.0441* (0.0766)	-0.0210 (0.2223)	-0.0473* (0.0500)
Oil production (log)	-0.0845 (0.1657)	-0.131 (0.1342)	-0.0915 (0.1669)	-0.146 (0.1491)
Int. Reserves to GDP	-0.0791** (0.0176)	-0.0487 (0.2339)	-0.0832** (0.0165)	-0.0490 (0.2391)
Debt crisis (dummy)	7.976* (0.0701)	10.16 (0.1788)	8.850** (0.0461)	11.79 (0.1198)
Sunni population (dummy)	-0.0711 (0.9293)	-0.627 (0.5704)		
Shia population. (dummy)	-3.095 (0.1466)	-2.126 (0.8783)		
Sunni regime(dummy)			0.419 (0.6059)	0.185 (0.8807)
Shia regime (dummy)			-0.437 (0.8134)	7.448 (0.4772)
Religious Tensions		0.778* (0.0737)		0.883** (0.0482)
Observations	359	236	359	236
Country fixed effects	No	No	No	No
Time fixed effects	Yes	Yes	Yes	Yes

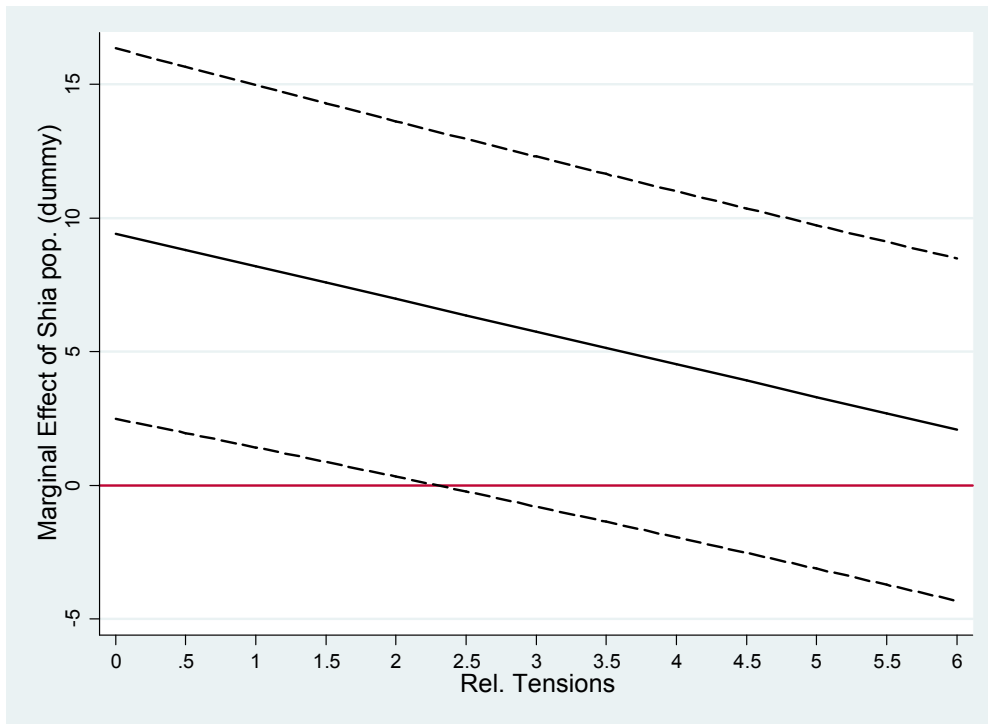
Notes: The dependent variable is the loan commitments approved by the World Bank to borrowing member i in period t , denominated in constant US dollars (base year 2000) and in logarithmic scale. Marginal effects are reported. Shia population (dummy) and Shia regime (dummy) are interacted with Religious Tensions in specifications (2) and (4) respectively. In these cases, the marginal effect of Shia population (dummy) and Shia regime (dummy) at the mean value of Religious Tensions are reported. P-values are shown in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Figure I.7: Conditional Marginal Effects of Shia Population on IsDB Commitments, Country Fixed Effects Excluded, 90 percent Confidence Interval



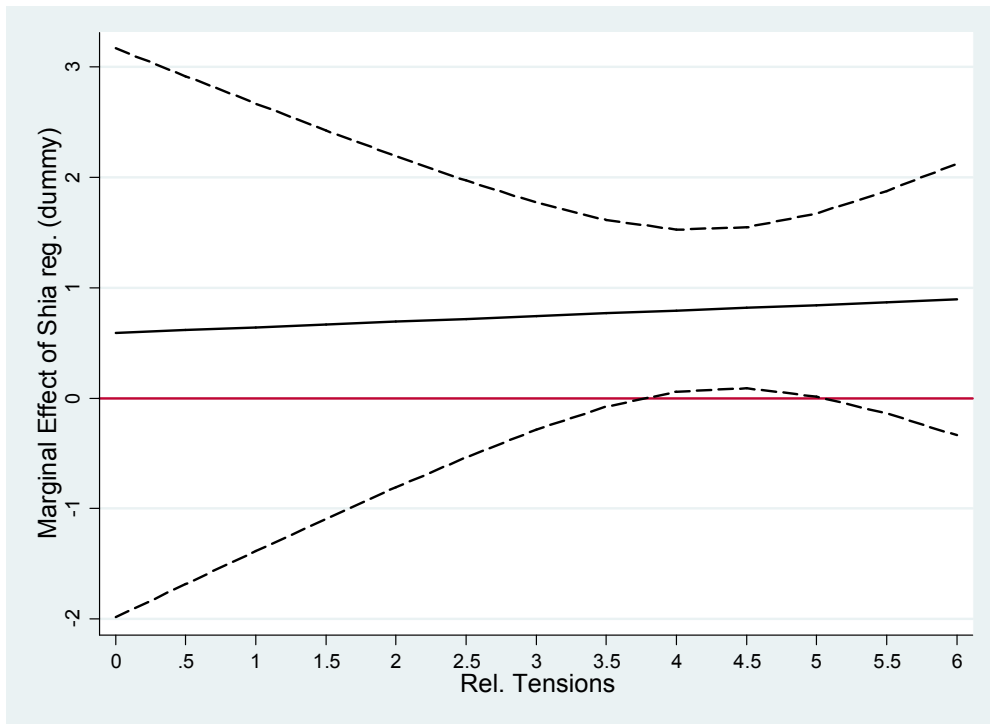
Notes: The graph shows the marginal effects of Shia population (dummy) on IsDB loan commitments (log). Marginal effects are conditional on different values of Religious Tensions. Dashed lines denote the upper and lower boundaries of the 90 percent confidence interval. Model specification excludes country fixed effects and includes all control variables.

Figure I.8: Conditional Marginal Effects of Shia Population on IsDB Commitments, Country Fixed Effects Included, 90 percent Confidence Interval



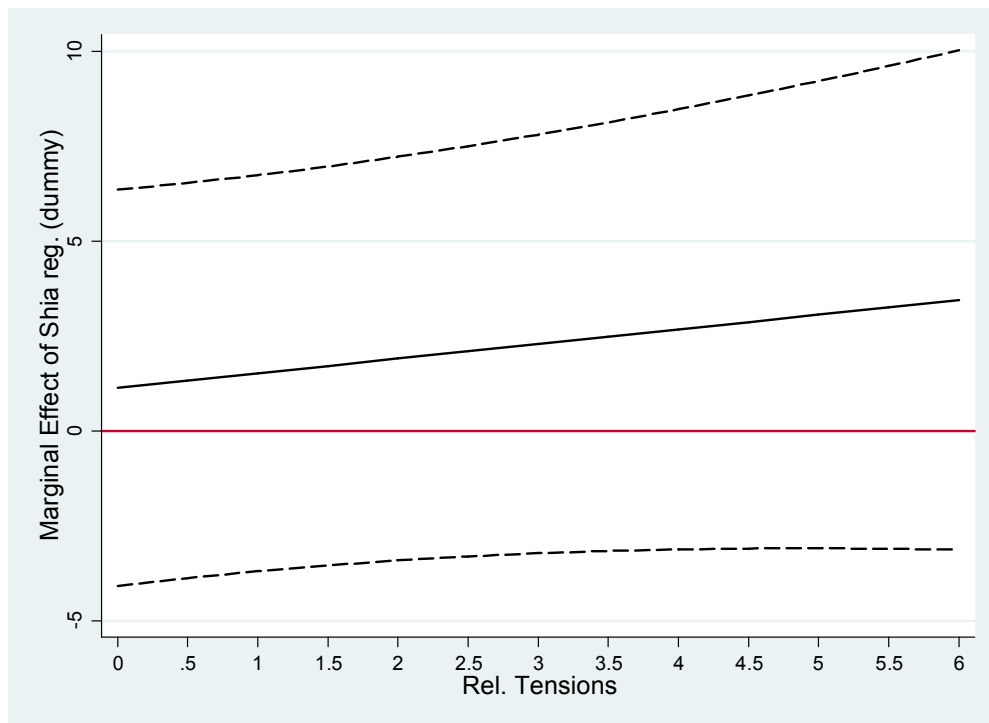
Notes: The graph shows the marginal effects of Shia population (dummy) on IsDB loan commitments (log). Marginal effects are conditional on different values of Religious Tensions. Dashed lines denote the upper and lower boundaries of the 90 percent confidence interval. Model specification includes country fixed effects and all control variables.

Figure I.9: Conditional Marginal Effects of Shia Regime on IsDB Commitments, Country Fixed Effects Excluded, 90 percent Confidence Interval



Notes: The graph shows the marginal effects of Shia population (dummy) on IsDB loan commitments (log). Marginal effects are conditional on different values of Religious Tensions. Dashed lines denote the upper and lower boundaries of the 90 percent confidence interval. Model specification excludes country fixed effects and includes all control variables.

Figure I.10: Conditional Marginal Effects of Shia Regime on IsDB Commitments, Country Fixed Effects Included, 90 percent Confidence Interval



Notes: The graph shows the marginal effects of Shia population (dummy) on IsDB loan commitments (log). Marginal effects are conditional on different values of Religious Tensions. Dashed lines denote for upper and lower boundaries of the 90 percent confidence interval. Model specification includes country fixed effects and all control variables.

Chapter II:

Does Inclusion Guarantee Institutional Autonomy?

The Case of the Inter-American Development Bank

Acknowledgements: I thank Axel Dreher, participants of World Congress of the Public Choice Societies (Miami 2012), Beyond Basic Questions Workshop (Schiermonnikoog 2012), Nordic Conference in Development Economics (Gothenburg 2012) and European Meeting of the Econometric Society (Malaga 2012) for valuable comments and suggestions.

II.1. Introduction

Discontent with the substantial influence of major global players in International Financial Institutions (IFIs) has raised a call to restructure these organizations. Large decision power imbalances among stakeholders have been partly blamed for the failure of multilateral aid in promoting development (e.g., Alesina and Dollar 2000, Bueno de Mesquita and Smith 2013, Rajan and Subramanian 2008). It has been suggested that greater involvement of borrowing members in the lending allocation process limits the exposure of development resources to large donor interests, although no consensus has been reached on how such eventual reforms can create more independent IFIs (e.g., Bird and Rowlands 2006 vs. Copelovitch 2010). This debate naturally raises the question whether a larger representation of borrowers in the governance of IFIs does truly translate into “fairer” lending practices as some critics of the current aid architecture may recommend.²¹ Even though fully democratic IFIs are virtually nonexistent, the Inter-American Development Bank (IDB) provides an example of a major IFI not dominated by non-borrowers, and its configuration may well provide a hint to answer this question. By analyzing IDB lending patterns, this chapter investigates the extent to which major donor influence is limited in the governance of IFIs with considerable borrowing member participation.

Taken as a whole, these studies point to the conclusion that major stakeholder overrepresentation in the governance of IFIs facilitates the canalization of their own political and economic interests in developing countries in the form of multilateral aid allocation. In terms of policy implications, however, two alternate positions are revealed. The first group calls for changes within the structure of IFIs with a redistribution of vote shares and greater independence of the boards of directors to hinder loan allocation decisions coinciding with major donor foreign policy objectives (Bird and Rowlands 2006, Buirra 2005). The second group suggests that the replacement of large donor votes with those of other countries will not necessarily result in more technocratic or independent IFIs, but rather, will simply substitute their interests with those of other large countries (Copelovitch 2010). Moreover, these studies often sustain that political manipulation guarantees the survival of IFIs (Dreher et al. 2009b).

In line with this argumentation, the larger historical participation of borrowing members in the governance of the IDB, compared to similar IFIs, provides a good framework

²¹ See Bird and Rowlands (2006) and Linn et al. (2008) for a recent discussion on reform proposals to IFIs.

with which to evaluate the extent to which the influence of major stakeholders is limited under more inclusive institutional structures. The IDB is the largest RDB and main source of development finance for the Latin America and Caribbean (LAC) region.²² Unlike the World Bank and the Asian Development Bank (ADB), for instance, borrowing members of the IDB hold the majority of the voting shares and have always appointed the President as well as a very large proportion of the Executive Directors.²³ Nevertheless, it has been alleged that US political and commercial interests influence IDB allocation decisions. As an example, a \$58 billion loan to Nicaragua in 1985, at the time led by a leftist government, was claimed to be kept from coming to a vote as a result of a letter being sent by the then US Secretary of State George Schultz to the IDB president Antonio Ortiz (Babb 2009). As another example, the sharp decline in IDB lending during the 1980s has been attributed to strong disagreements between the same US presidency administration and large IDB borrowing members over further capital increases from the Bank. This ultimately resulted in the resignation of the then IDB president, Ortiz (Babb 2009, Humphrey and Michaelowa 2010). Moreover, limited US informal influence over the Bank, or weak control over rates of disbursements after loan approval, has been suggested to be a result of strong US formal influence over the lending decisions (Bland and Kilby 2012).²⁴ However, empirical research on the role of US interests in the LAC region on IDB loan allocation, considering the influence of large borrowing countries and possible overlap among their preferences, is scarce.²⁵ This study fills this gap and thus contributes to the debate over the restructuring of IFIs.

The aim of this chapter is to evaluate how sensitive IDB loan commitments to borrowing members are to the influence of the US and other large donors. To do so, it makes use of panel data on IDB loan commitments during the 1970-2007 period, distinguishing the effects of explanatory variables across aid sectors and time. The key explanatory variables

²² Please refer to Figures II.1 and II.2.

²³ Borrowing members of the IDB hold 51 percent of the voting share, this figure is 39 percent and 46 percent for the World Bank and ADB respectively. Nationals of borrowing countries in the IDB take up 9 of the total 14 executive director positions, while in the World Bank they fill less than half (10 of 24) and only half (6 of 12) of the ADB director positions. More details on the structure of the IDB are provided in the next section.

²⁴ Bland and Kilby (2012) investigate whether IDB loans disburse faster when the borrowing country is geopolitically or economically important for the US. The authors use panel data techniques to analyze the impact of US interest on loan disbursements controlling for prior commitments. This methodology seeks to assess donor informal influence after loan approval. The study, however, does not find evidence of such influence. The authors claim that these results are a consequence of greater degree of US formal control, or prior to loan disbursements, although they do not directly evaluate it.

²⁵ To the best of my knowledge there does not exist any study considering the impact of borrowing countries' interests on IDB lending decisions.

include the interests of large borrowers, the interests of the US and the differences between the preferences of these parties. Section II.2 describes how the IDB is structured and its participation in the LAC region. Section II.3 develops the hypotheses to be tested, while section II.4 introduces the data and the estimation strategy. Section II.5 shows the main results, while conclusions are presented in section II.6.

II.2. The Inter-American Development Bank

The creation of an organization to promote economic and social development in the LAC region had been already suggested during the First International Conference of American States back in 1890. The first concrete proposal to found such an institution came from the then Brazilian President, Kubitschek, in 1959, which was approved shortly afterwards by the Organization of American States. This process culminated with the drafting of the Agreement Establishing the IDB during that same year, making the IDB the first RDB in the World.

Initially composed of 19 LAC countries and the US, the IDB focused mainly on poverty reduction- and social-programs to address concerns that the region was susceptible to the spread of communism. During the following decades Bank membership expanded through the Americas and, since 1976, countries outside the LAC region have been accepted as members. Korea and China were the most recent additions, joining in 2005 and 2009 respectively. Today the Bank consists of 48 members: 26 borrower and 22 non-borrower members. Borrowing countries are restricted to the LAC region. These hold 51 percent of the voting share, with Argentina and Brazil holding the largest shares with 11 percent each, followed by Mexico with 7 percent. Non-borrowing countries therefore hold 49 percent of the voting share, with the US alone capturing 30 percent of this share, while Japan and Canada hold 5 percent and 4 percent respectively. Borrower members are grouped into 2 categories of higher and lower income according to their GDP per capita in 1997; 65 percent of the total lending volume went to the lower income group in this year (IDB 2011).

IDB loan commitments over time compared with development aid flows from other sources to the LAC region are depicted in Figure II.1. As observed, the IDB has traditionally been a leading institution on development finance in the LAC region. The IDB allocated \$7.4 billion per year on average over the 1970-2007 period, while the same figure for the World Bank (restricted to the LAC region) is around \$8.1 billion. Difference in commitment levels between both institutions is considerable in the second half of the 1980s, in favor of the World

Bank, and in the second half of the first decade of the 2000s, in favor of the IDB. The first difference is explained by a sharp decline in IDB lending, associated with disagreements between the US presidential administration and large borrowing members in 1986 on the Bank's seventh general capital increase and on a proposition to alter its voting rules (Babb 2009). Capital increases were agreed in 1989 under the then new IDB president Enrique Iglesias, in exchange for devoting 25 percent of disbursements to policy-based lending, while the proposition by the US on the alteration of the voting rules was dropped (Babb 2009); commitment levels follow afterwards their trend before the then capital increase negotiations started. The second difference is, in contrast, due to a large decrease in World Bank lending to the LAC region, which might indicate preference towards the IDB during economic booming periods (Humphrey and Michaelowa 2010). Such a preference for the IDB might be justified by discontent on policy stipulations coming along with World Bank loans, leading countries to seek alternative creditors, which are easier to find when borrowing countries' economies are in good shape (Humphrey and Michaelowa 2010). Except for these two short periods, lending by both institutions to the LAC region remains at similar levels.

Note that the yearly average of IDB loan commitments is more than four times larger than that of US bilateral aid flows to the LAC region over the 1970-2007 period. The latter figure is around \$1.7 billion and does not even surpass IDB commitments levels following the late 1980s plummet. Figure II.2 relates IDB loan commitments with loan commitments from other main RDBs over the same period. Except for a couple of years, the IDB has approved larger loans than its counterparts over the whole period. During this period, the IDB was consequently the largest RDB in terms of aid allocation, well above the ADB, the second largest RDB, which committed \$4.3 billion in development aid on average every year.

Moving to the governance of the IDB, it was modeled after the World Bank, and is therefore similarly structured in a number of ways. First, a Board of Governors is the highest level of authority in the hierarchy of the Bank. Each member country appoints one governor, whose voting power is proportional to the capital in the Bank contributed by his or her country. The IDB's governors are ultimately responsible for overseeing the Bank's activities and administration, although in practice they delegate most of those responsibilities to a Board of Executive Directors. This Board is composed of 14 executive directors representing the 48 member countries and also includes 14 alternates, who have full power to act in the absence of their principals. They are in charge of approving loan and guarantee proposals, policies, country strategies, the administrative budget, setting interest rates, and making decisions on borrowings and other financial matters. Representatives from Canada and the US

are permanently appointed in the Board of Executive Directors, while the remaining 12 executive directors need to be elected by the Board of Governors following pre-established country group rules. Additionally, as in the World Bank, resources are largely available to borrowers via a hard window, the Bank's Ordinary Capital (OC), and a soft window, the Fund for Special Operations (FSO). Similarly to the World Bank's International Development Association (IDA), the FSO is used to provide concessional loans to the poorest countries in the region (Bolivia, Guyana, Haiti, Honduras, Nicaragua, and to a lesser extent Guatemala and Paraguay), whose assets are made up of contributions from IDB member countries.

The IDB differs substantially from the World Bank and other IFIs, especially in terms of borrowing member representation. As pointed out before, regional borrowers hold the majority of the votes, with 51 percent of the share, while the World Bank and the ADB are clearly donor-predominant institutions, where borrowers are assigned the less-than-majority shares of 39 percent and 46 percent respectively (ADB 2011, IDB 2011, World Bank 2012b). The IDB arrangement is advantageous in protecting borrowing member interests, as decisions met at the Board of Executives often require a simple voting majority, including decisions regarding loan and guarantees approval (IDB 1959). For instance, the US always needs the support of at least one borrowing country executive to block undesired loans. It also means that projects pursued by the large borrowers Argentina, Brazil and Mexico are difficult to obstruct. Note that these three countries hold all together as many as votes as the US. During the Bank's seventh general capital increase in 1986, the US proposed an approval threshold of 65 percent for loans and guarantees, which would have allowed the US to easily block undesired loans, e.g., with the support of another non-borrower like Canada (Babb 2009). The proposition received strong opposition from large borrowing members and was finally dropped, instead a compromise was accepted to give executive directors the power to delay loan disbursements that they did not approve (Babb 2009).

Additionally, the IDB president is elected by its Board of Governors, and has historically been a national of a borrowing country. This is in contrast to the World Bank and the ADB whose respective presidents are always American and Japanese citizens. Nevertheless, the IDB's executive vice president is always appointed by the American government. Nationals of borrowing countries in the IDB also constitute 9 of the total 14 executive directors, while this proportion in the ADB is half (6 of 12) and in the World Bank is less than half (10 of 24).

Finally, IDB concessional lending (FSO) has been historically very low compared to other IFIs. It comprised only 4 percent of total IDB disbursements in 2011, while this figure

was 38 percent for the World Bank (IDA) and 18 percent for the ADB (Asian Development Fund – ADF) for the same year (ADB 2011, IDB 2011, World Bank 2011).²⁶ Concessional lending is arguably more subject to donor interests. Since most of concessional funds come from non-borrowing member contributions, the space for these to pursue their own political agendas might be greater if concessional lending is relatively high. In the case of the IDB’s FSO, unlike its counterparts at the World Bank and the ADB, the US has a special arrangement in which it can veto any of the FSO’s allocation decisions, thus giving it substantial control over IDB concessional lending. Therefore the small figure for the IDB is likely to limit major stakeholder influence. This particularity has resulted from the ability of big borrowers to resist transfer of net income from OC lending to the IDB’s soft window, reflecting strong influence of borrowing members in the governance of the Bank (Birdsall 2003).

These characteristics in the structure and organization of the IDB differ from those of similar IFIs in terms of borrower representation, and might limit US control over lending decisions. The influence of large borrowing member interests and their relationship with the US are crucial on how this inclusive structure of the IDB can lead to greater institutional autonomy. Given this evidence, a set of hypotheses are developed in the following section.

II.3. The Argument

The debate on how to establish independent IFIs, in which lending is oriented primarily towards recipient-country need, can be divided into two lines of argument. While both parties agree that inefficient allocation results from the overrepresentation of major stakeholders, they hold different views of how IFIs’ governance can be improved. The first line of argument maintains that lending free of political and economic interests can be achieved through the redistribution of voting shares, a loan supply which is less dependent on members’ capital contributions and more reliant on international financial markets, greater independence of the boards of directors, and election cycles which avoid overlapping with the local political cycles of major stakeholders (Bird and Rowlands 2006, Buirra 2005, Linn et al. 2008). Those on the other side of the debate consider political manipulation to be an inherent feature of IFIs such that impartial lending is virtually impossible to achieve (Copelovitch

²⁶ Concessional lending proportional to total disbursements is 9 percent for the IDB in the 1961-2011 period and 24 percent for the ADB in the 1966-2011 period.

2010, Dreher et al. 2009b). This scenario is based on the view that more democratic institutions will simply substitute some stakeholders' interests with those of some other countries.

With its borrower-oriented organizational structure, the IDB represents a good example with which to evaluate the validity of the claims of both sides in the debate. In contrast with similar multilateral organizations, borrowing members have a substantial say in the governance of the Bank, which has allowed them to effectively protect their own interests. Evidence suggests that the weight of large borrowers in lending and administrative decisions is crucial. Therefore, allocation patterns might not respond immediately to political and economic interests of the Bank's largest donor, the US. The relationship that the US has with the IDB's largest borrowing members, Argentina, Brazil and Mexico is critical in assessing the extent to which US influence is constrained. As mentioned in the previous section, US political agenda is rather difficult to achieve without the support of these three countries. Copelovitch (2010) provides a straightforward framework to understand the interaction between the US, Argentina, Brazil and Mexico, and its effect on IDB allocations. Under this setting, preference intensity and preference heterogeneity among these four countries is a key factor of lending variation. Preference intensity refers to the collective interest held by all four of the largest shareholders in a borrowing country. The impact of preference intensity on lending is simple: when the four leading members have a strong interest in lending to a particular borrower, for instance a big commercial partner or a key political ally, IDB loans should clearly reflect their economic and political interests. On the other hand, when preferences of the four leading members concerning a country are weak, IDB loans should instead reflect the Bank's technocratic interests.

Preference heterogeneity denotes the degree in which the interests of the major stakeholders towards a specific country are different. This might have two possible outcomes on IDB lending patterns which could potentially reveal whether or not the four leading members are acting under a cooperative scheme. The first possible outcome, which would indicate that there is no cooperative scheme between the four lending members, is that greater preference heterogeneity would lead to a distributional conflict within the Board of Executives; each member backing different policies when their interests diverge. For example, it might be the case that the US strongly supports the development of a project in a country with which it has firm political ties, while Brazil opposes it given divergences with the government of this same country. A reduction in the loan size is then expected to be the price demanded by Brazil in exchange for setting aside its concerns regarding political

differences with the third country and supporting US interests. Under this scenario, greater preference heterogeneity would be reflected in smaller loan approvals for the borrowing country, offsetting the impact of preference intensity. Or in the example, the outstanding position of Brazil with respect to US preferences would prevent the realization, at least partially, of additional lending for the specific borrower which would have potentially been achieved given the relatively high support of the group of four leading members as a whole. Clearly, in such an organization, political influence from the US or any of the other three large members is likely to be constrained, creating scope for the IDB to increase its autonomy.

Alternatively, under a cooperative scheme, the four largest shareholders support the same policies even when interests diverge. In this case, rather than creating a distributional conflict within the Board of Executives, greater preference heterogeneity might create opportunities for “logrolling” among the IDB’s four largest shareholders. When governments of these four countries disagree over the size of a specific loan, they might support the request of the most interested counterpart in order to receive a similar treatment for their own preferred loans. A hypothetical setup might be the approval of a larger than proposed loan for a country that is an important commercial partner for the US but of relative economic insignificance for Argentina, Brazil and Mexico. This chain of favors system is plausible because this group of countries has to repeatedly interact with each other over time and may find it useful to perform inter-temporal bargains in exchange for future reciprocity. As a consequence, a borrowing country will receive larger loans as preference heterogeneity increases, complementing the effects of preference intensity. Imagining this in the hypothetical setup, the outstanding position of US preferences in the group of four main shareholders would further drive the effect of additional lending to the specific borrower initially derived from the relatively high support of the group as a whole, led by US preferences. In this case, the structure of the IDB allows the US to pursue its own political agenda. As for the case of Argentina, Brazil and Mexico, they are expected to benefit from disproportionately large amounts of the Bank’s resources as their own local conditions are obviously their topmost priority.

Furthermore, preference heterogeneity is expected to be conditional on preference intensity, as suggested by Copelovitch (2010). In other words, there is an interaction effect between both variables. Copelovitch predicts that preference heterogeneity will have stronger effects when there is higher preference intensity towards a borrowing country. The reasoning behind this anticipation is that when large shareholders have a strong collective interest in a particular borrower, it is expected that institutional autonomy is limited as the principal

shareholders exert great influence over lending decisions. Control over the allocation of aid is therefore less likely to occur if collective interest is weak. This is expected to be true for both distributional conflict and logrolling opportunities scenarios. However, this assumption cannot be held for the IDB in case of a distributional conflict. Unlike in Copelovitch's (2010) analysis for the World Bank, here large stakeholders are also borrowing countries, and the expected effect of preference intensity in the IDB might differ quite considerably in the first scenario. If preference heterogeneity leads to a distributional conflict, large borrowers are less likely to experience important loan size decreases as their privileged position in the Board of Executives as large shareholders enables them to offset this adverse effect. Argentina, Brazil and Mexico obviously display high preference intensity towards their own local conditions and when dealing with their own cases are all unlikely to accept significant loan reductions. Therefore, minor borrowers, or countries of low preference intensity for the four decisive shareholders, as they are smaller commercial partners and of less political relevance, are expected to be most affected in cases of distributional conflict. In contrast, when preference heterogeneity between the US, Argentina, Brazil and Mexico creates logrolling opportunities, predictions over lending trends are not substantially different from those predicted by Copelovitch (2010). Large borrowing members, as large shareholders of the Bank, participate directly in the logrolling opportunities and are subsequently more likely to observe stronger loan size increases under preference heterogeneity. Consequently both large borrowers and countries with high preference intensity for the four decisive shareholders are expected to be most affected when logrolling opportunities are created. Given this line of argument, the following hypothesis is proposed:

Hypothesis 1: IDB lending is exposed to US interests only under a cooperative scheme with the Bank's largest borrowers. If, in contrast, preference heterogeneity leads to a distributional conflict, IDB lending is weakly exposed to US interests as scope for institutional autonomy is created.

Additionally, there are factors other than the structural and governance characteristics of the Bank that might explain the prevalence of donor influence in allocation decisions. For example, the US and recipient countries might prefer to exert control over aid diverted only into certain sectors. If development aid is perceived as a reward to compensate political allies or as an instrument to promote exports in the LAC region, then projects that create political capital, enforce economic relations with the US and generate large rents should be more exposed to donor influence. These projects are more likely to impact recipient countries' economic conditions in the short run, such as employment and income. On the

other hand, projects which are the Bank's main official priorities, such as those focusing on poverty alleviation and inequality reduction, should be less affected by political and economic interests. Such projects target structural socioeconomic deficiencies in recipient countries and tend to impact the state of the economy in recipient countries gradually over long periods of time.

In order to distinguish short-run from long-run impact projects the methodology in Clemens et al. (2012) is followed. That study classifies development aid sectors, depending on the expected time that it will take for their impacts to be realized; i.e. either short-term or long-term. After replicating a number of previous works on aid effectiveness, the study finds that development aid turns out to be more effective in promoting growth when considering only those flows diverted into short-term impact sectors. Short-run impact sectors include transport and storage, communications, energy generation and supply, financial services and businesses, agriculture (agronomy, forestry and fishing) and production (industry, mineral resources and mining, construction and trade). Long-run impact sectors comprise education, health and population policies, water supply and sanitation, social infrastructure and multi-sector aid (women's rights, environment protection and tourism). Commodity aid and emergency assistance are not included in either category and classified as "other." This classification is appropriate because it distinguishes sectors that impact economic activity in the short-run from those that do not, and are arguably more likely to be subject to political influence.

Finally, donor influence may vary over time, as donors' interests change and they gain or lose the power to influence decisions. More specifically, several empirical studies have pointed out that in the Cold War period development aid was heavily influenced by donor interests in the developing world (Dreher et al. 2009a). The World Bank publicly admits that "(...) during the Cold War years aid was politically motivated. Now however aid is being delivered to countries most in need, and to those who show they are determined to use it well."²⁷ Taking these two factors into account, the following hypotheses have been formulated:

Hypothesis 2: IDB lending to short-run impact sectors is more exposed to US interests than lending to long-run impact sectors.

Hypothesis 3: IDB lending during the Cold War period was more exposed to US interests than in the period afterwards.

²⁷ World Bank, Frequently Asked Questions (www.worldbank.org last accessed 01.06.2015)

II.4 Data and Methods

The data set includes all loan committed by the IDB to every borrowing member during the 1970 to 2007 period.²⁸ Given different membership entrance dates of bank members, the panel is unbalanced, containing 943 observations distributed among 26 countries.²⁹ There are no missing values after the year of entry of every member.³⁰ Figure II.3 describes the historical distribution of IDB allocations over borrowing members. As can be seen, lending is largely concentrated among the largest stakeholders: Brazil received on average 19 percent of the Bank's yearly loan commitments, while Argentina received 14 percent and Mexico 13 percent. These figures, in absolute numbers, are \$1.1 billion, \$870 million and \$713 million respectively. There is, however, a large variability of these proportions over the 1970-2007 period. Brazil received 48 percent of total IDB commitments in 1999 or nearly \$5 billion, largely explained by the granting of two large loans of \$2.3 billion and \$1.2 billion. These two loans correspond to programs to maintain levels of social spending and credit supply to the private sector respectively to offset the global financial crisis. In contrast, Brazil received less than 1 percent of total loans committed by the IDB in 1988 or only \$11 million. Similarly, 38 percent of total loan allocations in 1998 or \$4.5 billion were granted to Argentina, mainly driven by a \$2.6 billion loan (the largest ever granted by the IDB). It consists of a structural adjustment program to guarantee macroeconomic stability driven by fears of spillover effects following the Asian and Russian financial crisis. Conversely, in 1990 this same country obtained less than \$1 million, representing less than 1 percent of total IDB funds for that year. Variability in loans committed to Argentina and Brazil reflect the large decrease in overall lending for the 1987-1990 period and the outstanding allocation levels for the 1998-2000 period.³¹ In contrast, there was less variance in the loan commitments received by Mexico over the entire period. The smallest share of total IDB loan commitments received by Mexico

²⁸ The period of analysis is restricted from 1970 to 2007 due to data availability (IDB Annual Report various years, OECD 2012). IDB projects including more than one borrowing member simultaneously are not included in this analysis. These represent, however, only 3 percent of all resources committed for the 1970-2007 period.

²⁹ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela joined the IDB in 1959; Trinidad and Tobago in 1967; Barbados and Jamaica in 1969; Guyana in 1976; The Bahamas in 1977; Suriname in 1980; Belize in 1992.

³⁰ Zero values have been double checked with IDB reports directly.

³¹ Chile, Panama and Peru also experienced significant drops in commitments levels during the 1987-1990 period, as no new IDB loans were approved to each of these countries in 1987, 1988-1990 and 1989 respectively. Conversely, commitment levels are exceptional for Colombia during the 1998-2000 period, as it received more than \$1 billion in IDB loans in that year.

occurred in 1998, when it received 3 percent or almost \$400 million. The largest share it received was around 32 percent or nearly \$2 billion in 2000, which is less than half the highest allocation received by Brazil and Argentina for the entire period. On the other side of the loan distribution is the Bahamas, Barbados, Belize, Guyana, Haiti, Suriname and Trinidad and Tobago, each of them receiving less than 1 percent of total resources committed by the IDB for the 1970-2007 period. However, except for Haiti and Trinidad and Tobago, the share of capital that each of these countries contributed to the Bank was also less than 1 percent. The large majority of borrowing countries did not receive IDB funding for at least one year during the period of analysis. The longest periods that countries went without a loan are Venezuela with 11 years, Trinidad and Tobago with 9 years, and Bahamas and Haiti with 6 years each.

Figure II.4 provides the evolution of IDB allocations for short-term and long-term impact projects separately. The description “other” includes projects which can be classified as neither short-term nor long-term impact, such as food aid, emergency aid and administrative costs. The graph describes a clear structural break in lending patterns around 1989, coinciding with the long awaited and controversial agreement on the Bank’s seventh general capital increase, and also with the beginning of the end of the Cold War. After 1989 resources allocated to long-term impact projects quadrupled, jumping from a yearly average of \$1.1 billion in the pre-agreement period to a yearly average of \$4.1 billion in the post agreement period. Lending to short-term impact projects, on the other hand, remains stable when comparing both periods’ yearly averages (\$3.2 billion and \$3.1 billion respectively). After taking into account the structural break, the graphs also show that the size of short-term impact projects in monetary terms is more volatile than that of long-term impact projects. The proportional distribution of loan commitments along sectors is presented in Figure II.5, displaying numbers for the periods before and after 1989 separately. The jump of allocations to long-term impact sectors from one period to the other is largely explained by considerable increases in the contributions to social infrastructure and government and civil society projects. Other long-term impact sectors that received increased levels of commitments were education, health and multi-sector. On the other hand, commitments to several short-term impact sectors were redirected into one specific sector: large proportional decreases are observed in the agricultural, industrial and energy generation sectors, but these are compensated for by a steep surge in funding for the banking and financial services and business sectors.

The following models are proposed to test the different hypotheses:

$$\text{Comm}_{it} = \alpha + \beta_C C + \beta_F F + \beta_I I^{\text{US}} + \mu_i + \gamma_t + \varepsilon_{it} \quad (1)$$

$$\text{Comm}_{it} = \alpha + \beta_C C + \beta_F F + \beta_I I^{\text{GR}} + \beta_H H^{\text{GR}} + \beta_{IH} I^{\text{GR}} * H^{\text{GR}} + \mu_i + \gamma_t + \varepsilon_{it} \quad (2)$$

$$\text{Comm}_{its} = \alpha + \beta_C C + \beta_F F + \beta_I I^{\text{US}} + \beta_{IS} I^{\text{US}} * S + \omega_s + \mu_i + \gamma_t + \varepsilon_{its} \quad (3)$$

The dependent variable in (1) and (2) is the logged commitments level in constant dollars assigned by the IDB to a country i for a given year t .³² In order to test for US control over the Bank, as proposed in hypothesis 1, I^{US} in (1) includes different measures of US interest in the LAC region. Variables describing preference intensity and preference heterogeneity are comprised in I^{GR} and H^{GR} respectively in (2). In this way it is recognized whether or not the four largest shareholders of the Bank are working under a cooperative scheme and its effect on lending, as stated in hypothesis 1. This specification also includes an interaction term between these last two variables, as preference heterogeneity is expected to be determined by preference intensity. Moreover, the model in (3) adds a third dimension to the dataset. The dependent variable here is the level of commitments received by country i in year t and s sector type. Sectors are classified either as short-term or long-term impact, or as “other” if they cannot be included in any of the previous. In this specification, US interests are interacted with the sector types to identify different effects across short-term and long-term impact sectors, as expected in hypothesis 2. S consists of two dummy variables signaling the sector type that projects belong to. To test hypothesis 3 the model in (1) is considered and US interests are interacted with a dummy variable identifying the Cold War period. C is a matrix of control variables and F contains loan demand and supply factors over all three specifications. Variables μ , γ and ω control for country, year and sector type fixed effects respectively, and ε is the error term. Given that loan commitments cannot take negative values, a zero lower limit Tobit model is implemented in every specification. All regressions include standard errors clustered by country to allow for possible autocorrelation within a country and avoid spuriously small p-values.

Moving to the variables of main interest, four measures are introduced to proxy for US commercial and political interests in the LAC region: US exports, voting compliance with the US in the UN General Assembly, US bilateral aid and temporary membership in the UN Security Council. US exports denotes the logged total exports from the US to country i in constant dollars for a given year t . This measure accounts for market size, and therefore

³² With the aim to keep zero observations in the commitment level variable, a value of 1 is added before the transformation into logarithms.

addresses the economic relevance of a country to the US (e.g., Bland and Kilby 2012). Period averages for this variable indicate that the US's largest export market in the LAC region is by far Mexico with \$43 billion in sales, followed by Brazil and Venezuela with \$8.9 billion and \$5.8 billion respectively. The smallest US trading partners in the LAC region are Belize, Guyana and Suriname, each of them accounting for less than \$200 million in average yearly exports during the period of analysis. Voting compliance with the US reflects the alignment of country *i* with the US in the UN General Assembly. Country *i* scores a 1 if it follows the US on a vote, 0 if it votes in opposition, and 0.5 if any of the two countries either abstained or was absent during a voting session. The alignment of country *i* in year *t* is its mean score in the same year. A country's behavior at the UN General Assembly discloses affinity with the US, and it is a widely used proxy for US political influence (e.g., Alesina and Dollar 2000, Andersen et al. 2006). Highest average values during the period of interest are observed in Paraguay (0.34), Guatemala (0.33) and the Dominican Republic (0.33). Lowest compliance levels are found for Guyana (0.23), Venezuela (0.24) and Mexico (0.24). US bilateral aid refers to the logged total amount of development assistance in constant dollars a country *i* receives from the US in a given year *t*. The aid allocation literature recognizes US bilateral aid as mirroring US geopolitical and commercial interests, and has the advantage of being a highly consistent measure across countries and over time (e.g., Fleck and Kilby 2006). Colombia, El Salvador and Peru are the three largest beneficiary countries of US aid agencies, receiving a yearly average of \$225 million, \$203 million and \$151 million respectively in the period of analysis. The recipients of the least amount of US bilateral aid were the Bahamas, Barbados and Trinidad and Tobago, each receiving a yearly average of less than \$1 million. Temporary membership in the UN Security Council is captured with a dummy variable, taking a value of 1 if country *i* served at the Council in year *t*, and 0 otherwise. The UN Security Council together with the UN General Assembly are arguably the most important international bodies in the world, and temporary members have been identified to receive a disproportionately large amount of resources from different IFIs during their serving period, possibly as a reward for supporting US initiatives in the Council (e.g., Dreher et al. 2009a, Dreher et al. 2009b, Kuziemko and Werker 2006, Lim and Vreeland 2013). For this reason, temporary membership at the Council might reflect US political preference towards a country. In the LAC region, Argentina is the country that has served most frequently during the period of analysis, having served on the UNSC during 5 separate periods. It is followed by Brazil and Panama, serving 4 times each. In contrast, 10 countries in the LAC region, almost half of

the total, have never served at the Council: The Bahamas, Barbados, Belize, The Dominican Republic, El Salvador, Guatemala, Haiti, Paraguay, Suriname and Uruguay.

Preference intensity from the four largest shareholders, US, Argentina, Brazil and Mexico towards a specific country is proxied by two measures. The first proxy consists of the average of logged total exports from each of the four main shareholders to a country i in year t . Given that Argentina, Brazil and Mexico are also recipient countries, in order to keep observations for flows from Argentina to Argentina, from Brazil to Brazil and from Mexico to Mexico, the exports value of their largest trading partner in year t is taken instead. In this way it is guaranteed that preference intensity towards the country itself receives the highest value proportionally to export flows to other countries. The second proxy is the UN General Assembly voting compliance average of country i with each of the four main shareholders for a given year t . Similarly, voting compliance for the country pairs Argentina-Argentina, Brazil-Brazil and Mexico-Mexico take a value of 1, which is the upper limit of the variable. Construction of a preference intensity measurement based on bilateral aid is not possible given insufficient data on Argentinian, Brazilian and Mexican bilateral aid. Temporary membership in the UN Security Council is not a bilateral variable and therefore not suitable under this framework.

Preference heterogeneity is proxied by two measurements, following Copelovitch (2010): the coefficient of variation of exports and of UN General Assembly voting affinity. The coefficient of variation is the ratio of the standard deviation to the mean, expressed as a percentage, and measures the dispersion of exports and voting affinity along the US, Argentina, Brazil and Mexico for a borrowing country in a year t . Highest period average values for the coefficient of variation of exports are found in Belize (33.8 percent), Guyana (33.7 percent) and Suriname (26.7 percent). This implies that the significance of these countries in terms of exports is highly heterogeneous among the four largest shareholders of the Bank. For example Belize is a relatively important export market for the US and Mexico, while for Argentina and Brazil it is not; Guyana is a relatively important export market for the US and Brazil, while for Argentina and Mexico it is not. On the other side are Chile (7.9 percent), Uruguay (8.1 percent) and Colombia (9.3 percent), implying that these countries are of similar levels of importance for the four largest shareholders. As for the coefficient of variation of voting affinity, the differences between country averages are not large. Guyana stands at the top with 40 percent and Paraguay at the bottom with 31 percent.

Finally, the influence of other possible explanatory variables is captured with a set of controls. Variables in C include logged population and logged GDP per capita to control for

country size and income, as well as a democracy index and the inflation rate. The democracy index is the average of two measures on political rights and civil liberties and captures possible allocation preference for certain forms of government (e.g., Alesina and Dollar 2000). The inflation rate is calculated using the Consumer Price Index and transformed using the formula $x/(100+x)$ to reduce the influence of hyperinflation years. Following Sturm et al. (2005), Humphrey and Michaelowa (2010) and Bland and Kilby (2012) F contains variables controlling for loan demand and supply factors. Variables in F include government expenditures to GDP, current account balance to GDP, GDP per capita growth, investments to GDP, international reserves to GDP, international reserves change to GDP, logged checks and balances and elections. This last variable is a dummy variable indicating if main elections (presidential or parliamentary according to the political system) have been held in a country during that year, accounting for political cycles, which have been shown to influence aid allocation (e.g., Dreher et al. 2009a). A detailed description and source of all variables in the models are provided in Appendix II.1 and summary statistics are shown in Appendix II.2.

II.5. Empirical Results

Table II.1 shows results for specification (1). Regressions in columns 1 to 5 include only the set of basic controls in C while those in columns 6 to 10 additionally consider the loan supply and demand factors in F. Models in columns 11 to 15 contain only those controls in F or those that are robust or significant across every regression in columns 6 to 10. As can be seen, all basic controls take the expected sign, however, only GDP per capita and inflation rate are significant at conventional levels. These initial results suggest that IDB allocations follow recipient needs, as countries receive larger commitments when their income conditions deteriorate relative to their mean levels, and also that borrowing members are not obtaining disproportionate shares of Bank loans at times of substantial demographic changes. The insignificant coefficient for the democracy index across most regressions is an indication that shifts in a country's government regime are neither being punished nor favored by the Bank. Lower inflation rates are a main signal of macroeconomic stability, therefore the significant and negative coefficient of this variable indicates predilection for more economically conservative periods for a particular borrower. Three variables from the loan supply and demand factors in F are consistently significant at conventional levels across the five regressions: current account balance to GDP, GDP per capita growth and the international

reserves to GDP. These results indicate that countries in periods with relatively larger current account surpluses or relatively smaller current account deficits receive significantly more resources from the IDB. This can be explained by their relatively lower likelihood to default on their repayments, making them less risky candidates for loans. The same argument applies for countries growing at faster than average rates, which are granted significantly more loans. Larger international reserve stocks are associated with significantly less borrowing/loans being received, presumably because borrowing members with excess reserves are less financially constrained and therefore are not the main target of the IDB development agenda.

Turning to the variables capturing US interests, as can be seen at the bottom of Table II.1, the coefficient of the variable for US exports fails to be significant at conventional levels in all cases. This result indicates that IDB lending patterns do not react to changes in the commercial position of the US for a particular country in the LAC region. Similarly, closer political ties to the US, as measured by voting compliance at the UN General Assembly, do not trigger significant fluctuations in the allocation of resources from the IDB either. The coefficient for this variable fails to be significant at conventional levels across every regression. In contrast, the coefficient for US bilateral aid is positive and significant at the 10 percent level across all regressions, making visible the weight of US motives to allocate development aid in the Bank's lending decisions. Lastly, the dummy variable denoting temporary membership at the UN Security Council is always insignificant at conventional levels, suggesting that the IDB is closed to US pressure to reward supporters at the Council. Variables are lagged one period in separate specifications to check for possible estimation biases and inconsistencies which might have derived from endogeneity. Coefficients remain similar for all four variables in terms of size, sign and significance levels.³³

These outcomes diverge from parallel research on other IFIs, such as the International Monetary Fund (IMF), the World Bank and the ADB, where the US's and other major donors' political and economic interests strongly shape the direction and intensity of development aid allocations. Here, IDB allocation decisions do not respond to US commercial interests in the LAC region and react only to one of the three proposed measurements of US political influence. Most likely, large borrowing members exert substantial influence in the governance of the IDB, pushing to finance projects of their own interest and reducing the space for US control. Unlike in other IFIs, recipient countries in the IDB have an advantageous participation in terms of voting shares, representation on the Board of Executive

³³ Results with lagged variables are not shown but available upon request.

Directors, and control over concessional lending. These specific features might allow borrowers to secure relevant proportions of IDB loans regardless of political or economic alignment with the US. The next analysis seeks to determine whether limited US control together with the prominent involvement of the Bank's largest borrowing countries in the governance of the Bank has translated into the establishment of a more technocratic IFI or whether it simply serves the interests of a handful of the largest shareholders.

Results from (2) are exhibited in Table II.2. As before, three alternatives for the specification are considered: including basic controls in C, adding loan supply and demand factors in F, and taking into account only robust controls in F. The coefficient of variation of exports, which proxies for preference heterogeneity, is negative across all regressions and significant at conventional levels in two of the three specifications (columns 1, 5 and 9), suggesting that changes in commercial interests among the US, Argentina, Brazil and Mexico towards a specific member country is likely to lead to a distributional conflict of IDB of loans. As borrowers are penalized with smaller loans when disparities in commercial links to the largest shareholders are wider than their mean values, this result also reflects that this group of influential countries is not operating under a chain of favors or a cooperative scheme. However, as soon as the interaction term is introduced in subsequent columns, the effect of the coefficient of variation of exports weakens, turning insignificant at conventional levels in all models. Marginal effects are calculated in order to adequately interpret the impact on IDB lending under a setting allowing for an interaction effect.³⁴

Figure II.6 depicts the marginal effect of the coefficient of variation of exports on IDB allocation for different levels of average exports and suggests that it is indeed conditional upon the size of the exports market.³⁵ As seen, the negative effect of the coefficient of variation of exports remains significant only for smaller export markets of the largest shareholders up until a certain threshold. After this threshold, the effect turns insignificant at conventional levels.³⁶ Observations that fall below this threshold include several years for Barbados, Belize, Guyana, Haiti, Nicaragua and Suriname, and a limited number of years for Bahamas, Bolivia, El Salvador, Honduras, Jamaica and Paraguay. Table II.3 predicts the

³⁴ When the model is nonlinear, as in the case here, the interaction effect cannot be evaluated simply by looking at the sign, magnitude, or statistical significance of the coefficient on the interaction term. Instead, the interaction effect requires computing the marginal effects of the first variable in the interaction term evaluated at different points of the other variable in the interaction term (Ai and Norton 2003).

³⁵ Marginal effects in Figure II.6 are calculated using all control variables at mean values.

³⁶ The threshold corresponds to an average export value of around \$35 million, equivalent to 10.5 in the scale in Figure II.6.

percentage change in IDB lending derived from a one standard deviation increase in the coefficient of variation of exports, evaluated at different levels of exports average from the largest four shareholders.³⁷ As can be seen, the predicted percentage change in IDB lending lies between -42 percent and -30 percent, significant at conventional levels, if the exports average from major shareholders is below \$10 million, and between -30 percent and -24 percent, significant at conventional levels, if exports average from major shareholders reaches between \$10 million and \$35 million. The impact on IDB lending fails to be significant at conventional levels if exports average from major shareholders surpasses the latter figure. Smaller export markets are also among the smallest shareholders in the Bank and their weight in lending decisions is probably not sufficiently decisive to offset the adverse effect of distributional conflicts between the largest shareholders. On the other hand, countries with larger export markets, which are the larger borrowing members in the IDB, are less likely to have restrictions placed on their own borrowing, suggesting that they have more power to resist the influences of other large shareholders. This is especially evident for Argentina, Brazil and Mexico.

The coefficient of variation of voting compliance with the largest four shareholders fails to be significant at conventional levels for all regressions (columns 3, 7 and 11). Similarly, the interaction terms also remains insignificant in every model (subsequent columns). The marginal effect of the coefficient of variation of voting compliance on IDB allocation remains insignificant at conventional levels for different averages of voting compliance, as can be seen in Figure II.7.³⁸ Therefore, stronger political alliances with the US, Argentina, Brazil and Mexico do not significantly increase IDB lending, nor do changes in a borrower's political support towards the largest shareholders determine the allocation of loans. This outcome might be explained by the fact that political support to this group of prominent countries is not very heterogeneous in the LAC region. As described in the previous section, voting compliance averages do not vary substantially across countries, probably because Argentina, Brazil and Mexico usually represent the interests of LAC countries worldwide and are also represent the smaller countries in the international political arena. Thus, rather than recognizing allies or enemies, these three countries consider the LAC region as being largely homogenous in political terms. In contrast, dissimilarities in the economic relevance of regional countries are broader, given different country sizes,

³⁷ The percentage change from a one standard deviation (*sd*) increase is calculated through the formula $(\exp^{me}-1)*sd*100$, where *me* are the marginal effects.

³⁸ Marginal effects in Figure II.7 are calculated using all control variables at mean values.

geographical positions, development stages, natural resources abundances or market complementarities.

Table II.5a shows results for (3) which observes the effect of US interests on IDB lending for short-run and long-run impact projects separately and tests for hypothesis 2. Coefficients for basic controls in C and for loan supply and demand factors in F are similar to those in (1) in terms of signs and significance. The only major difference is the coefficient for the current account balance to GDP which now turns insignificant at conventional levels. Marginal effects for the key explanatory variables are exhibited in Table II.5b, in order to adequately interpret the interaction terms. The columns in Tables II.5a and II.5b relate to the same model specifications. As can be observed in Table II.5b, US exports fails to be significant at conventional levels for both lending to short-term and long-term impact projects, indicating that IDB allocations do not follow changes in the commercial position of the US for a specific country regardless of which sector funds are diverted to. On the other hand, US political interest variables react often to lending for short-term impact projects and hardly respond to lending for long-term impact projects. Marginal effects for US bilateral aid are robustly significant for short-term impact projects, while for long-term impact project, they fail to be significant at conventional levels in most specifications. In addition, the UN Security Council membership dummy also becomes significant for lending to short-term impact projects along almost all regressions, while remaining insignificant for lending to long-term impact projects at conventional levels. Marginal effects for US voting compliance at the UN General Assembly stay largely insignificant, except for the case of lending to short-term impact projects only when basic controls in C are employed. These results indicate that US influence over IDB lending decisions is limited but not completely absent. Loans for sectors that create political capital and generate large rents in the short-run are subjected to greater political pressure and hence more likely to be delivered when political ties to the US are stronger. Examples of these sectors are energy generation and supply, financial services and businesses, and production (industry, mineral resources and mining, construction and trade), which are highly profitable and have large impacts on employment creation.

Finally, results for (1) after adding an interaction term between the variables of interest and the Cold War dummy are presented in Table II.6a to test hypothesis 3. As before, Table II.6b exhibits marginal effects to adequately evaluate the impact of US interests during and after the Cold War separately. Once more, US exports fail to be significant at conventional levels in either case. Interestingly, the positive and significant effect of US bilateral aid obtained initially only prevails during the Cold War period, as this variable always becomes

insignificant at conventional levels for the period after the Cold War. The other two variables proxying for US political influence are persistently insignificant during both periods. These results indicate that the apparent politically driven lending once achieved by the US during the Cold War, disappears thereafter, most probably as a consequence of a reorientation in the Bank's lending. After the seventh general capital increase in 1989, social infrastructure or long-term impact sector lending becomes the priority of the IDB, identified to be less influenced by US political interests.

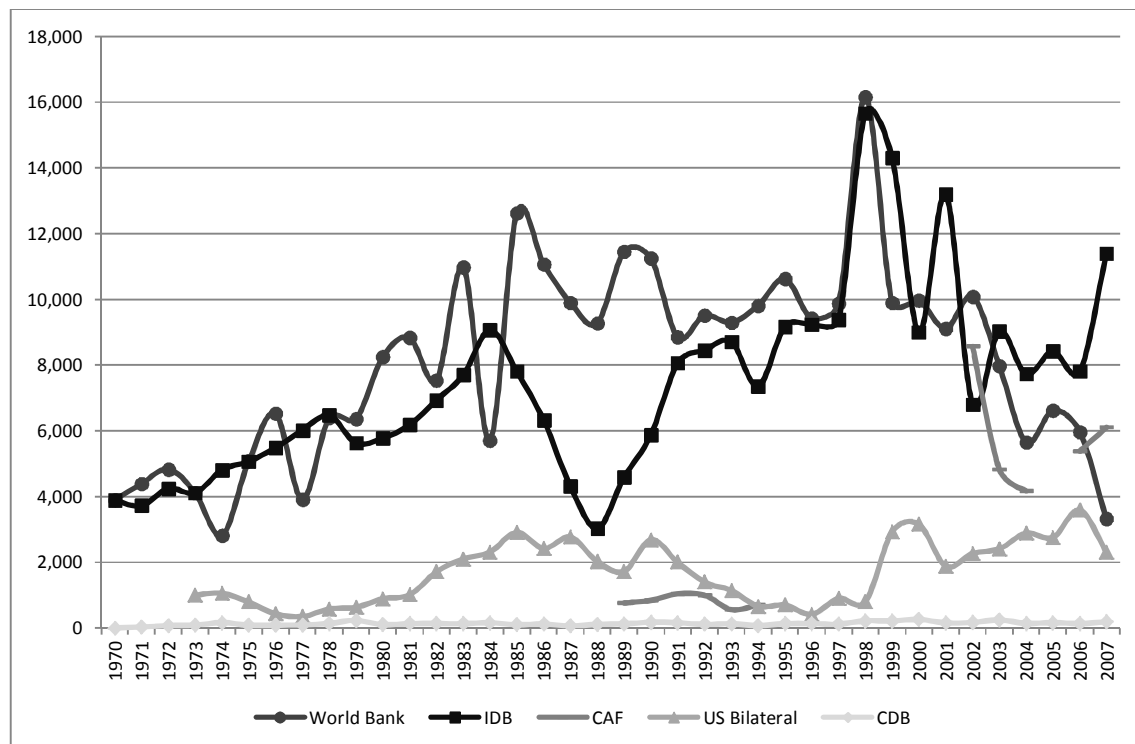
II.6. Conclusions

This chapter analyzes loans committed by the IDB during the 1970-2007 period, and investigates whether the US exerts influence over the Bank to pursue its own geo-strategic and commercial interests. Empirical results suggest that US control over IDB allocation decisions is limited, as overall lending decisions do not robustly respond to US political and economic interests in the LAC region. This uncommon outcome is most likely a consequence of the more equitable representation of borrowing countries in the Bank compared to other IFIs in terms of voting shares, staff appointed on the Boards of Governors and of Executive Directors, and control over concessional lending. In particular, the position of Argentina, Brazil and Mexico in the governance of the Bank serves to limit the scope for US control over lending decisions. Preference heterogeneity among the US and these three borrowing members towards other borrowers is shown to lead to a conflict in the distribution of IDB loans, providing an opportunity for the creation of a more autonomous organization. Nevertheless, US political influence is seen to be significant in cases of IDB lending to sectors that create political capital and potentially generate large rents in the short-run. In effect, US control is found to be more constrained after the end of Cold War, as the Bank focused on lending towards sectors targeting poverty alleviation and socioeconomic deficiencies following the long awaited and controversial seventh capital increase in 1989.

Overall, IDB lending is not fully immune to US political and economic interests in the LAC region, but this influence appears to be limited. This singular feature, as a result of the Bank's distinct structure among large IFIs, suggests that providing borrowing countries with greater representation within lending institutions does not necessarily translate into a substitution of control over lending but might, in fact, allow for more independent allocation decisions. It is crucial, however, that control mechanisms and incentives for participants

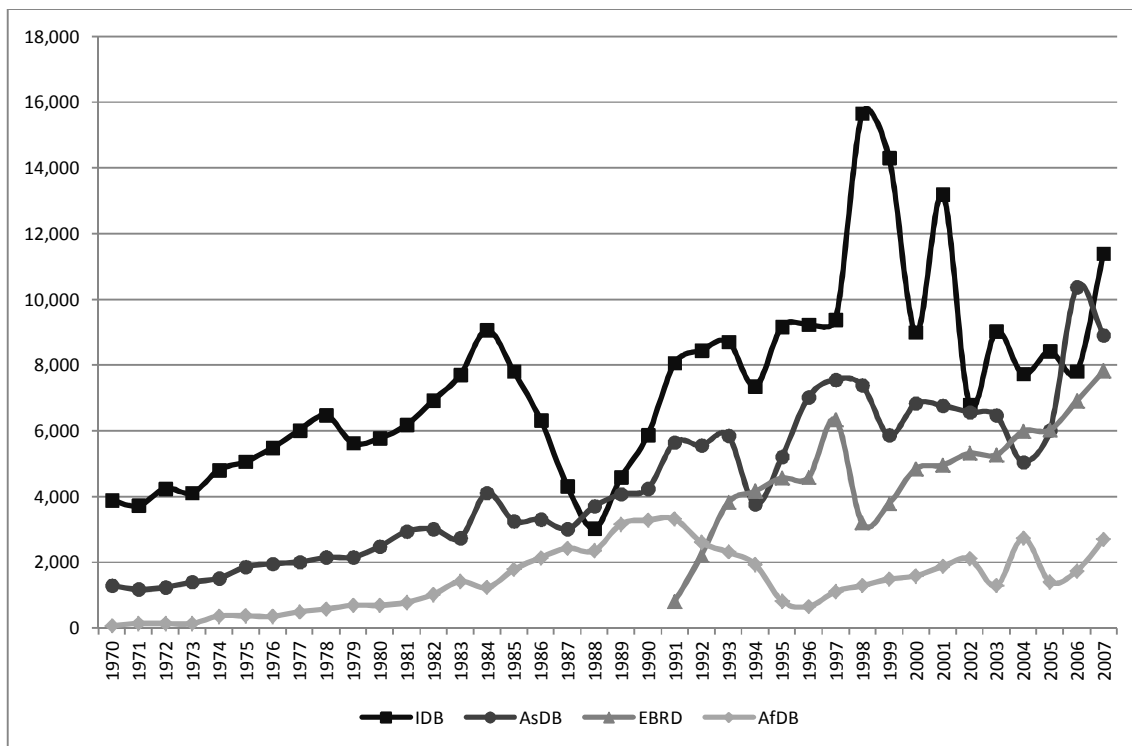
within IFIs are established so that the interests of larger members do not collectively eclipse the interests of smaller ones. Political manipulation is thus not inherent to multilateral lending and can be avoided if donors and beneficiaries are provided with similar opportunities to design the lending agenda and governance directives. The findings of this study favor the move to increase the autonomy and efficiency of IFI's through more equitable representation and therefore support recent initiatives to increment quotas in favor of emerging economies.

Figure II.1: IFIs Commitments to LAC region, Total by Year



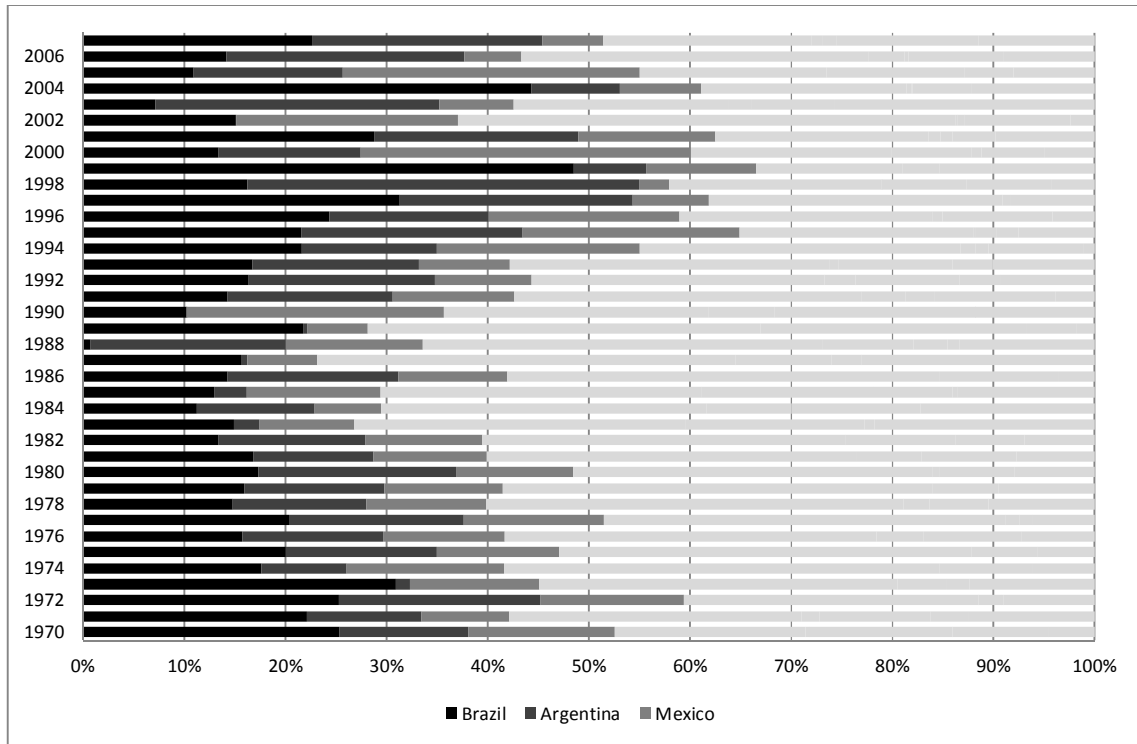
Notes: The graph shows loan commitments approved to countries in the Latin America and Caribbean (LAC) region by the World Bank, Inter-American Development Bank (IDB), Development Bank of Latin America (CAF), US development assistance agencies and the Caribbean Development Bank (CDB) in each year for the 1970-2007 period. Figures are given in US constant dollars (base year 2000) and scaled to millions. Source: IDB, OECD.

Figure II.2: RDBs Commitments, Total by Year



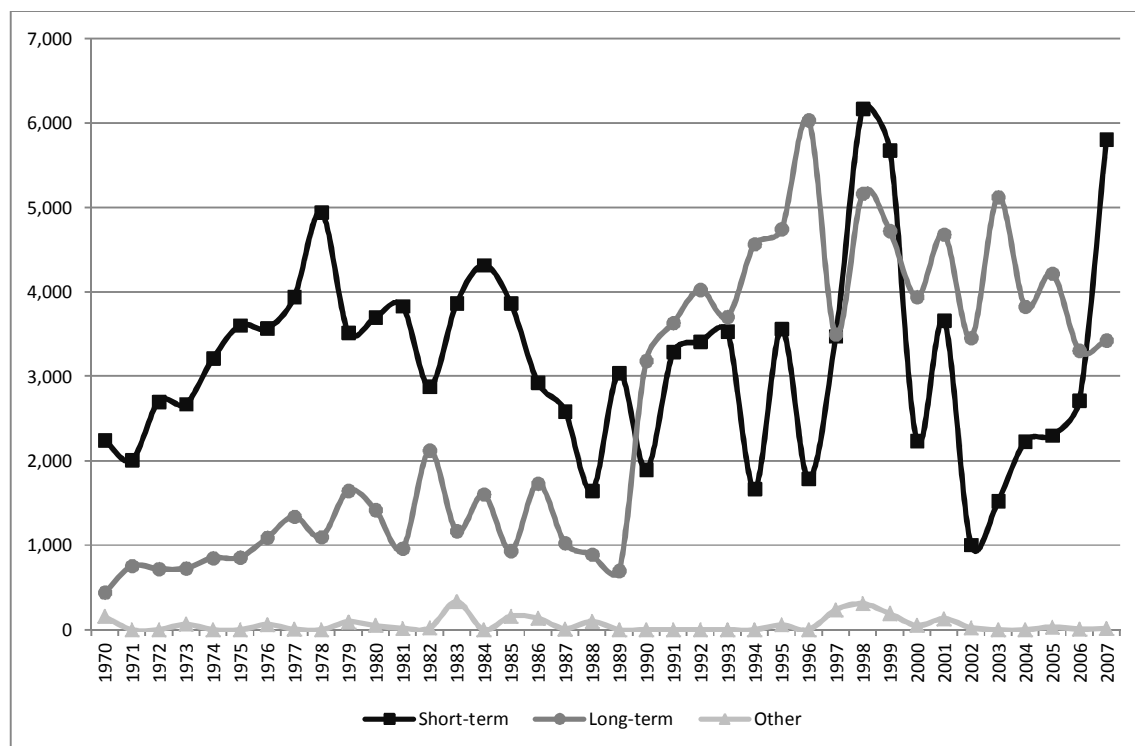
Notes: The graph shows loan commitments approved by the Inter-American Development Bank (IDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD) and African Development Bank (AfDB) in each year for the 1970-2007 period. Figures are given in US constant dollars (base year 2000) and scaled to millions. Source: IDB, OECD.

Figure II.3: IDB Commitments, Share in Total by Borrowing Member and Year



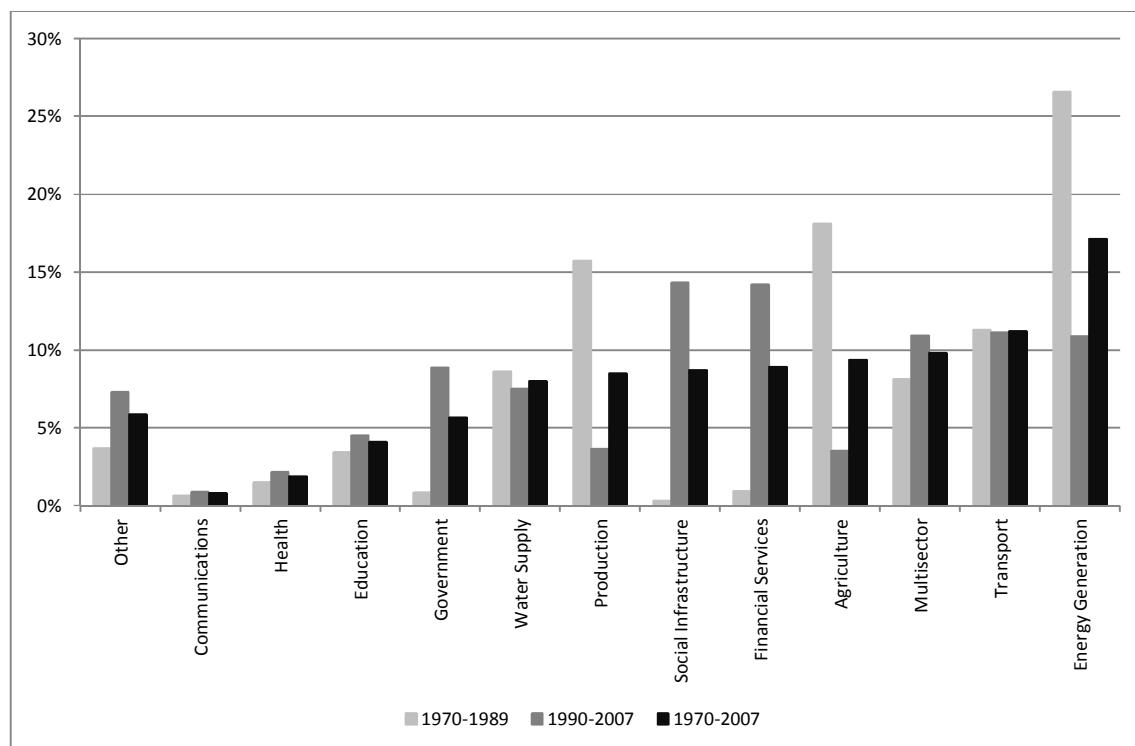
Notes: The graph shows the share received by Brazil, Argentina, Mexico and remaining borrowing countries in loan commitments approved by the Inter-American Development Bank (IDB) in each year for the 1970-2007 period. Figures are given in percentage points. Source: IDB, OECD.

Figure II.4: IDB Commitments, Total by Sector Type and Year



Notes: The graph shows loan commitments approved by the Inter-American Development Bank (IDB) in short-term impact sectors, long-term impact sectors, and other sectors in each year for the 1970-2007 period. Short-term impact sectors comprise transport and storage, communications, energy generation and supply, financial services and businesses, agriculture (agronomy, forestry and fishing) and production (industry, mineral resources and mining, construction and trade); long-term impact sectors comprise education, health and population policies, water supply and sanitation, government, social infrastructure and multisector (women's rights, environment protection and tourism); other sectors comprise commodity aid and emergency assistance. Figures are given in US constant dollars (base year 2000) and scaled to millions. Source: IDB, OECD.

Figure II.5: IDB Commitments, Share in Total by Sector and Period



Notes: The graph shows the share of loan commitments approved by the Inter-American Development Bank (IDB) delivered to each sector in the 1970-1989, 1990-2007 and 1970-2007 periods. Figures are given in percentage points. Source: IDB, OECD.

Table II.1: IDB Commitments and US Interests, Tobit, 1970-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Population (log)	-0.480 (3.384)	0.579 (2.887)	1.479 (2.912)	0.425 (2.965)	0.844 (3.154)	1.898 (4.973)	1.408 (4.570)	3.351 (4.899)	1.513 (4.670)	3.531 (5.030)	1.210 (3.470)	0.683 (3.249)	2.350 (3.468)	0.752 (3.270)	2.663 (3.620)
GDP cap. (log)	-3.629*** (1.259)	-3.243** (1.290)	-2.919** (1.229)	-3.257** (1.295)	-3.183*** (1.120)	-2.920*** (1.016)	-3.048*** (1.122)	-2.503** (0.994)	-3.039*** (1.113)	-2.405*** (0.926)	-2.963** (1.223)	-3.120** (1.316)	-2.713** (1.195)	-3.115** (1.302)	-2.588** (1.138)
Pol. & civil rights	-0.0392 (0.338)	-0.0593 (0.335)	-0.0782 (0.286)	-0.0545 (0.333)	-0.0682 (0.289)	-0.475 (0.325)	-0.460 (0.325)	-0.494* (0.289)	-0.469 (0.336)	-0.483* (0.268)	-0.288 (0.365)	-0.274 (0.376)	-0.281 (0.331)	-0.275 (0.374)	-0.285 (0.319)
Inflation rate	-3.925*** (1.469)	-4.176*** (1.445)	-4.416** (1.739)	-4.400*** (1.656)	-4.049*** (1.522)	-3.447* (1.778)	-3.393** (1.688)	-3.502* (1.804)	-3.309* (1.851)	-3.799** (1.594)	-3.060** (1.343)	-3.027** (1.187)	-2.956** (1.471)	-2.898** (1.364)	-3.305*** (1.270)
Gov. exp. / GDP						0.0278 (0.0762)	0.0310 (0.0781)	0.0259 (0.0767)	0.0330 (0.0744)	0.0160 (0.0856)					
Current acc. /GDP						0.0828*** (0.0264)	0.0829*** (0.0265)	0.0741** (0.0329)	0.0821*** (0.0270)	0.0766** (0.0315)	0.0583* (0.0346)	0.0587* (0.0342)	0.0544 (0.0362)	0.0584* (0.0343)	0.0561 (0.0362)
GDP cap. growth						0.184** (0.0744)	0.183** (0.0741)	0.170*** (0.0632)	0.182** (0.0739)	0.171*** (0.0631)	0.180*** (0.0652)	0.180*** (0.0654)	0.168*** (0.0583)	0.179*** (0.0644)	0.171*** (0.0593)
Investments / GDP						0.0363 (0.0506)	0.0366 (0.0508)	0.0272 (0.0502)	0.0356 (0.0512)	0.0297 (0.0492)					
Int. res. / GDP						-0.165*** (0.0576)	-0.167*** (0.0583)	-0.159** (0.0635)	-0.167*** (0.0577)	-0.156** (0.0632)	-0.162*** (0.0534)	-0.164*** (0.0541)	-0.158*** (0.0575)	-0.164*** (0.0537)	-0.156*** (0.0573)
Int. res. ch / GDP						-3.164 (8.997)	-3.683 (8.908)	-3.070 (8.811)	-3.536 (9.099)	-2.973 (8.504)					
Elections						-0.445 (0.514)	-0.434 (0.504)	-0.428 (0.515)	-0.445 (0.519)	-0.409 (0.510)					
Checks t-1 (log)						-0.617 (0.565)	-0.602 (0.547)	-0.679 (0.562)	-0.634 (0.568)	-0.603 (0.542)					
US exports (log)	0.672 (1.005)				0.495 (0.897)	-0.243 (0.881)				-0.232 (0.776)	-0.286 (0.859)				-0.271 (0.787)
US UNGA votes		3.313 (5.825)			0.733 (5.911)		-1.330 (5.441)			-2.629 (5.770)		-2.077 (5.599)			-3.620 (5.955)
US aid (log)			0.172** (0.0841)		0.166* (0.0881)			0.173* (0.0991)		0.176* (0.101)			0.150* (0.0892)		0.155* (0.0921)
UNSC memb.				-0.188 (0.729)	-0.126 (0.681)				-0.0212 (0.498)	0.177 (0.471)				0.0595 (0.469)	0.176 (0.441)
Constant	44.66 (50.98)	33.77 (47.56)	13.92 (48.58)	36.94 (49.01)	19.03 (48.10)	16.19 (76.60)	21.83 (73.34)	-17.78 (81.65)	19.90 (75.26)	-17.88 (80.48)	29.18 (53.89)	35.15 (53.64)	1.069 (58.35)	33.69 (54.13)	-0.729 (57.88)
Country fixed eff.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed eff.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	879	879	879	879	879	758	758	758	758	758	797	797	797	797	797

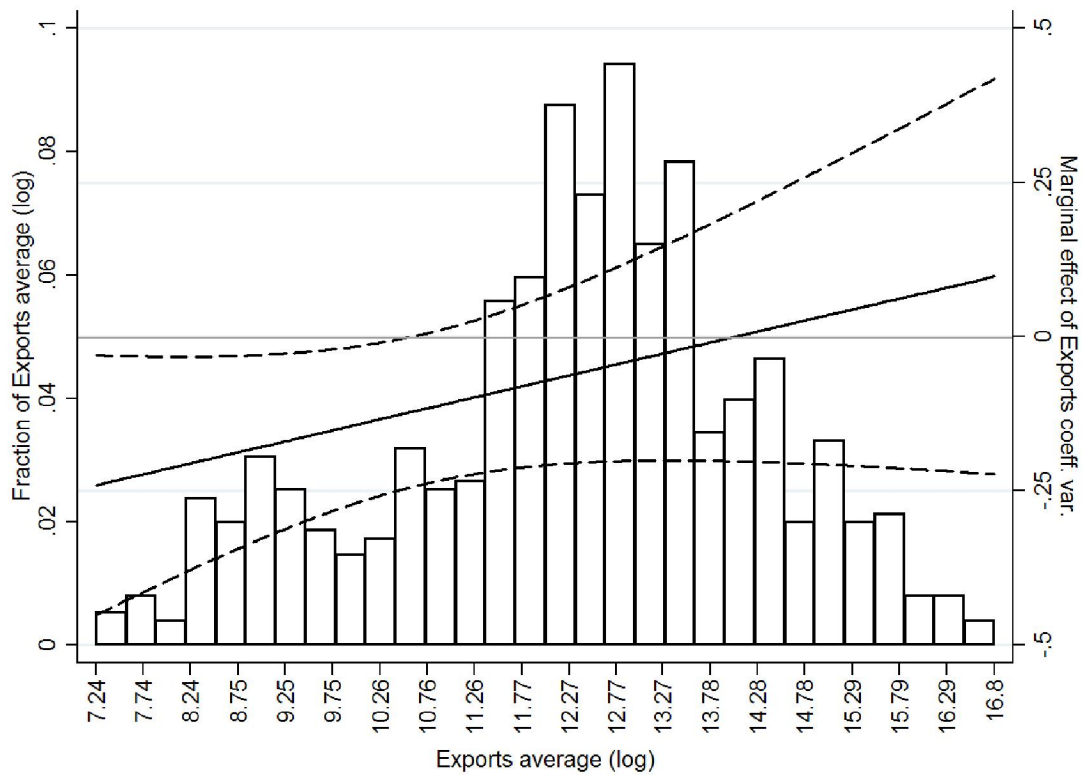
Notes: The dependent variable is the loan commitments in US constant dollars (base year 2000) approved by the Inter-American Development Bank (IDB) to borrowing country i in year t in logarithmic scale. Standard errors are clustered by country, reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table II.2: IDB Commitments and Major Shareholder Preference Heterogeneity, Tobit, 1970-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Population (log)	0.422 (3.158)	0.429 (3.206)	0.716 (2.873)	0.802 (2.879)	5.263 (4.417)	6.235 (4.717)	1.959 (4.663)	2.012 (4.633)	4.112 (2.822)	4.893 (3.166)	1.011 (3.161)	1.079 (3.084)
GDP cap. (log)	-3.423** (1.363)	-3.423** (1.363)	-3.288** (1.309)	-3.266** (1.291)	-2.316** (1.003)	-2.187** (1.028)	-3.044*** (1.086)	-3.039*** (1.080)	-2.397* (1.252)	-2.311* (1.260)	-3.135** (1.283)	-3.131** (1.282)
Pol. & civil rights	-0.0295 (0.338)	-0.0289 (0.335)	-0.0816 (0.300)	-0.0970 (0.293)	-0.443 (0.324)	-0.421 (0.328)	-0.541* (0.289)	-0.547** (0.276)	-0.242 (0.360)	-0.215 (0.365)	-0.338 (0.340)	-0.347 (0.340)
Inflation rate	-4.269*** (1.532)	-4.271*** (1.536)	-4.214*** (1.424)	-4.189*** (1.436)	-3.769** (1.821)	-4.067** (1.723)	-3.403** (1.649)	-3.399** (1.648)	-3.408** (1.411)	-3.618*** (1.336)	-3.033*** (1.147)	-3.025*** (1.148)
Gov. exp. / GDP					0.0212 (0.0817)	0.0217 (0.0793)	0.0315 (0.0785)	0.0310 (0.0784)				
Current acc. /GDP					0.0811*** (0.0273)	0.0840*** (0.0269)	0.0797*** (0.0254)	0.0792*** (0.0246)	0.0613* (0.0342)	0.0630* (0.0351)	0.0583* (0.0338)	0.0579* (0.0338)
GDP cap. growth					0.183*** (0.0704)	0.184*** (0.0707)	0.181** (0.0726)	0.180** (0.0713)	0.180*** (0.0611)	0.182*** (0.0625)	0.179*** (0.0644)	0.177*** (0.0640)
Investments / GDP					0.0322 (0.0481)	0.0335 (0.0447)	0.0337 (0.0511)	0.0332 (0.0511)				
Int. res. / GDP					-0.176*** (0.0516)	-0.185*** (0.0522)	-0.167*** (0.0579)	-0.167*** (0.0578)	-0.169*** (0.0474)	-0.175*** (0.0501)	-0.162*** (0.0529)	-0.161*** (0.0527)
Int. res. ch / GDP					-4.341 (9.169)	-5.189 (9.005)	-4.491 (8.705)	-4.466 (8.711)				
Elections					-0.396 (0.494)	-0.388 (0.492)	-0.431 (0.502)	-0.435 (0.496)				
Checks t-1 (log)					-0.672 (0.546)	-0.791 (0.522)	-0.655 (0.532)	-0.644 (0.570)				
Exports average (log)	0.283 (0.906)	0.280 (0.811)			-0.912 (0.597)	-1.280** (0.611)			-0.929 (0.655)	-1.216* (0.625)		
Exports coeff. var.	-0.0264 (0.103)	-0.0293 (0.176)			-0.166** (0.0809)	-0.498 (0.329)			-0.189** (0.0833)	-0.451 (0.315)		
Exports average * coeff. var.		0.000346 (0.0206)				0.0354 (0.0298)				0.0282 (0.0295)		
UNGA votes average			-10.60 (19.91)	3.555 (37.39)			-17.90 (15.33)	-9.789 (49.65)			-19.34 (14.78)	-8.755 (46.87)
UNGA votes coeff. var.			-0.0358 (0.0759)	0.293 (0.825)			0.0207 (0.0713)	0.196 (0.988)			0.0304 (0.0724)	0.262 (0.878)
UNGA votes average * coeff var.				-0.453 (1.132)				-0.240 (1.369)				-0.316 (1.238)
Constant	34.20 (49.84)	34.10 (51.32)	41.77 (47.29)	29.87 (55.02)	-34.76 (67.32)	-48.55 (71.98)	24.65 (70.72)	17.75 (77.77)	-14.21 (42.43)	-25.46 (48.65)	42.18 (52.05)	33.24 (54.44)
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	874	874	877	877	753	753	756	756	792	792	795	795

Notes: The dependent variable is the loan commitments in US constant dollars (base year 2000) approved by the Inter-American Development Bank (IDB) to borrowing country i in year t in logarithmic scale. Standard errors are clustered by country, reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Figure II.6: Conditional Marginal Effects of Coefficient of Variation of Exports on IDB Commitments, 90 percent Confidence Interval



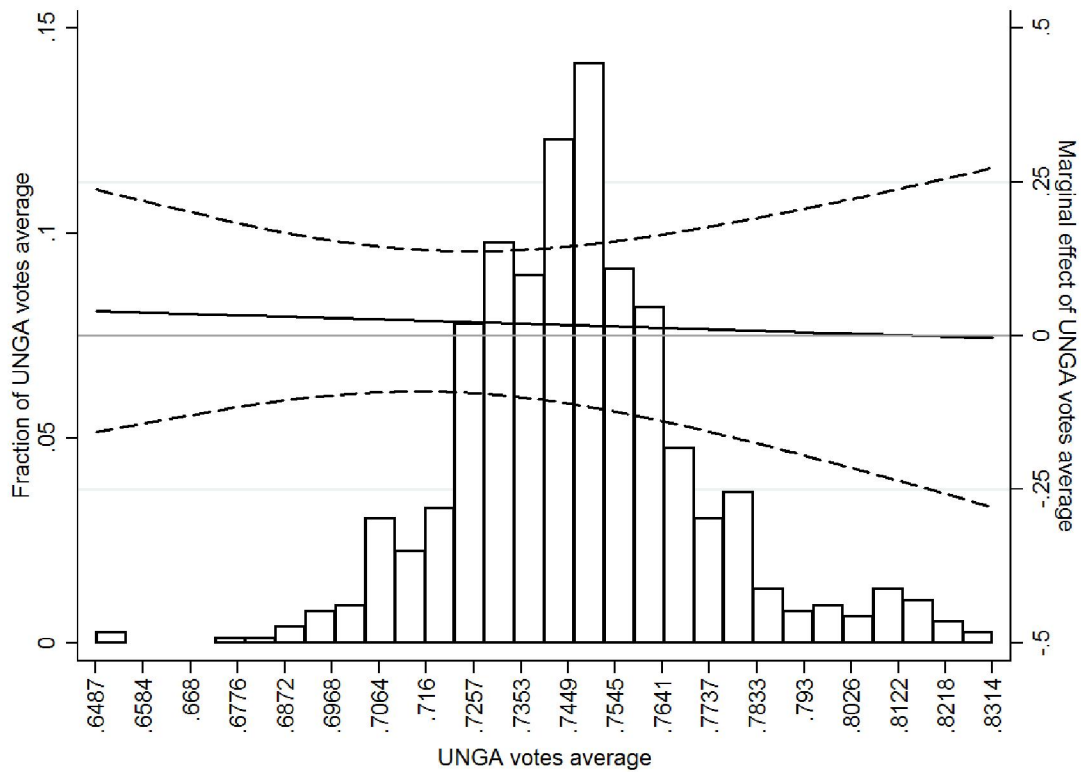
Notes: The graph shows on the right y-axis the marginal effects of the major shareholder exports coefficient of variation on IDB loan commitments (log). Marginal effects are conditional on major shareholder exports average (log). Dashed lines denote upper and lower boundaries of the 90 percent confidence interval. The graph also shows on the left y-axis the histogram of major shareholder exports average (log).

Table II.3: Predicted Percentage Change of Coefficient of Variation of Exports on IDB Commitments

Values of Exports average (log)	Predicted percent change in IDB comm	
7.24	-41.53	*
7.74	-38.79	*
8.24	-36.00	*
8.75	-33.16	**
9.25	-30.27	**
9.75	-27.33	*
10.26	-24.33	*
10.76	-21.28	
11.26	-18.18	
11.77	-15.02	
12.27	-11.80	
12.77	-8.52	
13.27	-5.19	
13.78	-1.79	
14.28	1.66	
14.78	5.18	
15.29	8.76	
15.79	12.41	
16.29	16.12	
16.80	19.90	

Notes: Predicted change from a one standard deviation (*sd*) increase is calculated though $(e^{me}-1)*sd*100$, *me* denotes marginal effects.*** p < 0.01, ** p < 0.05, * p < 0.1.

Figure II.7: Conditional Marginal Effects of Coefficient of Variation of Votes on IDB Commitments, 90 percent Confidence Interval



Notes: The graph shows on the right y-axis the marginal effects of the major shareholder UNGA votes coefficient of variation on IDB loan commitments (log). Marginal effects are conditional on major shareholder UNGA votes average. Dashed lines denote upper and lower boundaries of the 90 percent confidence interval. The graph also shows on the left y-axis the histogram of major shareholder UNGA votes average.

Table II.4: Predicted Percentage Change of Coefficient of Variation of Votes on IDB Commitments

Values of UNGA votes average	Predicted percent change in IDB comm
0.6487	0.1023
0.6584	0.0964
0.6680	0.0905
0.6776	0.0846
0.6872	0.0788
0.6968	0.0729
0.7064	0.0671
0.7160	0.0612
0.7257	0.0554
0.7353	0.0496
0.7449	0.0438
0.7545	0.0381
0.7641	0.0323
0.7737	0.0266
0.7833	0.0208
0.7930	0.0151
0.8026	0.0094
0.8122	0.0037
0.8218	-0.0020
0.8314	-0.0076

Notes: Predicted change from a one standard deviation (*sd*) increase is calculated though $(e^{me}-1)*sd*100$, *me* denotes marginal effects.*** p < 0.01, ** p < 0.05, * p < 0.1.

Table II.5a: IDB Commitments, US Interests and Sector Type, Tobit, 1970-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Population (log)	-1.470 (4.541)	0.742 (4.143)	1.572 (4.113)	0.221 (4.306)	0.654 (4.116)	3.714 (5.613)	4.830 (5.518)	6.472 (5.620)	4.485 (5.611)	6.060 (5.516)	1.387 (4.827)	1.845 (4.741)	3.699 (4.871)	1.807 (4.808)	3.275 (4.759)
GDP cap. (log)	-3.768** (1.556)	-2.972** (1.487)	-2.652* (1.421)	-3.091** (1.544)	-3.153** (1.354)	-3.126** (1.341)	-2.874** (1.354)	-2.346* (1.258)	-2.933** (1.381)	-2.586** (1.231)	-3.299** (1.571)	-3.133** (1.547)	-2.684* (1.430)	-3.193** (1.571)	-2.861** (1.447)
Pol. & civil rights	-0.192 (0.335)	-0.241 (0.331)	-0.256 (0.276)	-0.219 (0.331)	-0.232 (0.289)	-0.616 (0.399)	-0.659* (0.373)	-0.650* (0.354)	-0.620 (0.399)	-0.635* (0.348)	-0.334 (0.374)	-0.341 (0.369)	-0.349 (0.327)	-0.335 (0.376)	-0.312 (0.333)
Inflation rate	-6.570*** (2.104)	-6.593*** (2.213)	-7.261*** (2.368)	-7.348*** (2.479)	-6.170*** (2.167)	-5.300** (2.270)	-5.162** (2.307)	-5.588** (2.246)	-5.499** (2.309)	-5.191** (2.330)	-5.272*** (1.989)	-5.132** (2.015)	-5.284*** (1.984)	-5.334*** (2.054)	-5.104** (2.039)
Gov. exp. / GDP						-0.0109 (0.0982)	-0.00819 (0.103)	-0.0282 (0.0984)	-0.0159 (0.103)	-0.0171 (0.0976)					
Current acc. /GDP						0.0663 (0.0451)	0.0626 (0.0438)	0.0569 (0.0514)	0.0659 (0.0441)	0.0562 (0.0484)	0.0642 (0.0481)	0.0623 (0.0476)	0.0584 (0.0522)	0.0653 (0.0477)	0.0621 (0.0501)
GDP cap. growth						0.243** (0.0964)	0.244** (0.0971)	0.231*** (0.0870)	0.244** (0.0963)	0.227*** (0.0875)	0.251*** (0.0855)	0.250*** (0.0870)	0.240*** (0.0800)	0.252*** (0.0851)	0.236*** (0.0825)
Investments / GDP						0.00636 (0.0499)	0.00357 (0.0480)	0.000685 (0.0479)	0.00748 (0.0492)	-0.00672 (0.0485)					
Int. res. / GDP						-0.217*** (0.0663)	-0.217*** (0.0663)	-0.207*** (0.0745)	-0.218*** (0.0670)	-0.210*** (0.0717)	-0.200*** (0.0609)	-0.201*** (0.0614)	-0.192*** (0.0672)	-0.201*** (0.0615)	-0.195*** (0.0659)
Int. res. ch / GDP						-12.19 (11.81)	-11.50 (11.69)	-11.65 (11.75)	-12.86 (11.84)	-11.49 (11.39)					
Elections						-0.263 (0.738)	-0.324 (0.712)	-0.264 (0.730)	-0.266 (0.738)	-0.304 (0.708)					
Checks t-1 (log)						-0.798 (0.845)	-0.935 (0.794)	-0.828 (0.840)	-0.758 (0.835)	-0.986 (0.791)					
US exports (log)	0.254 (0.937)				0.00518 (0.844)	-0.617 (0.773)				-0.525 (0.739)	-0.777 (0.792)				-0.697 (0.748)
US exports (log) * Short	1.385* (0.739)				1.343* (0.729)	1.343* (0.685)				1.220* (0.691)	1.406** (0.688)				1.299* (0.689)
US exports (log) * Long	0.973* (0.568)				0.981* (0.529)	1.004* (0.570)				1.031* (0.542)	0.951* (0.572)				0.942* (0.536)
US UNGA votes		2.665 (10.86)			-2.303 (10.19)		-4.884 (11.03)			-7.895 (11.10)		-6.100 (11.56)			-9.648 (11.74)
US UNGA votes * Short		14.10** (6.504)			16.07** (6.602)		11.63 (8.216)			13.55* (8.138)		11.27 (8.189)			13.27 (8.124)
US UNGA votes * Long		9.846 (6.698)			11.46* (6.805)		13.13 (8.225)			15.09* (8.317)		13.57 (8.473)			15.35* (8.514)

Table II.5a (cont): IDB Commitments, US Interests and Sector Type, Tobit, 1970-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
US aid (logs)			0.305 (0.209)		0.299 (0.197)			0.261 (0.254)		0.289 (0.239)			0.223 (0.193)		0.254 (0.187)
US aid (log) * Short			-0.0656 (0.225)		-0.0962 (0.211)			-0.0160 (0.286)		-0.0506 (0.274)			-0.0126 (0.228)		-0.0539 (0.217)
US aid (log) * Long			-0.0846 (0.199)		-0.101 (0.195)			-0.120 (0.276)		-0.154 (0.268)			-0.0618 (0.206)		-0.0964 (0.207)
UNSC memb.				-5.203* (2.939)	-4.732 (3.009)				-5.238* (2.953)	-4.718 (3.039)				-5.124* (2.994)	-4.771 (3.096)
UNSC memb. * Short				7.278** (3.231)	6.592** (3.262)				7.375** (3.045)	6.860** (3.174)				7.357** (3.042)	6.807** (3.168)
UNSC memb. * Long				4.773 (3.479)	4.367 (3.461)				4.947 (3.378)	4.547 (3.308)				5.070 (3.424)	4.874 (3.395)
Constant	36.91 (75.91)	-0.0291 (70.07)	-22.18 (68.94)	8.924 (73.02)	-2.150 (67.27)	-36.64 (93.84)	-63.30 (93.13)	-101.3 (95.56)	-58.97 (94.25)	-82.99 (92.21)	5.305 (82.41)	-12.07 (81.53)	-52.79 (83.80)	-12.84 (82.86)	-32.29 (80.23)
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,637	2,637	2,637	2,637	2,637	2,274	2,274	2,274	2,274	2,274	2,391	2,391	2,391	2,391	2,391

Notes: The dependent variable is the loan commitments in US constant dollars (base year 2000) approved by the Inter-American Development Bank (IDB) to borrowing country *i* in year *t* delivered to sector *s* in logarithmic scale.

Standard errors are clustered by country, reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table II.5b: IDB Commitments, US Interests and Sector Type, Marginal Effects, Tobit, 1970-2007

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
US exports (log)	at Short	1.639 (1.157)				1.348 (0.988)	0.725 (0.808)				0.695 (0.738)	0.629 (0.801)				0.602 (0.728)
	at Long	1.227 (1.122)				0.987 (0.952)	0.387 (0.775)				0.506 (0.676)	0.174 (0.824)				0.245 (0.737)
US UNGA votes	at Short		16.77** (7.523)			13.77* (7.121)		6.750 (7.565)			5.658 (7.770)		5.174 (7.417)			3.618 (7.686)
	at Long		12.51 (8.296)			9.156 (8.146)		8.248 (8.906)			7.191 (9.054)		7.466 (8.517)			5.702 (8.779)
US aid (log)	at Short			0.240* (0.126)		0.203 (0.128)			0.245** (0.117)		0.238* (0.125)			0.211* (0.126)		0.200 (0.132)
	at Long			0.221* (0.116)		0.198* (0.116)			0.141 (0.137)		0.135 (0.139)			0.162 (0.120)		0.158 (0.123)
UNSC memb.	at Short				2.076* (1.195)	1.860 (1.210)				2.137** (1.075)	2.142* (1.181)				2.233** (1.074)	2.036* (1.199)
	at Long				-0.430 (1.396)	-0.366 (1.318)				-0.291 (1.282)	-0.172 (1.232)				-0.0544 (1.293)	0.103 (1.254)
Matrix C		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Matrix F		No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No
Matrix F (robust)		No	No	No	No	No	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Country fixed effects		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations		2,637	2,637	2,637	2,637	2,637	2,391	2,391	2,391	2,391	2,391	2,274	2,274	2,274	2,274	2,274

Notes: Marginal effects reported and only exhibited for the variables of interest. The dependent variable is the loan commitments in US constant dollars (base year 2000) approved by the Inter-American Development Bank (IDB) to borrowing country i in year t delivered to sector s in logarithmic scale. Matrix C stands for basic controls, Matrix F for loan supply and demand factors, and Matrix F (robust) for robust loan supply and demand factors. Standard errors are clustered by country, reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table II.6a: IDB Commitments, US Interests and Period, Tobit, 1970-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Population (log)	-1.419 (3.070)	1.220 (3.190)	3.659 (3.446)	0.410 (2.935)	2.266 (3.323)	0.244 (4.036)	1.488 (4.934)	6.605 (5.595)	1.489 (4.601)	3.818 (4.661)	-0.0898 (3.065)	0.985 (3.439)	5.266 (4.130)	0.738 (3.230)	3.686 (3.526)
GDP cap. (log)	-3.879*** (1.478)	-3.162** (1.233)	-2.746** (1.116)	-3.247** (1.288)	-3.291*** (1.224)	-3.353*** (1.239)	-3.039*** (1.083)	-2.064** (0.890)	-3.028*** (1.103)	-2.613*** (0.964)	-3.283** (1.460)	-3.079** (1.275)	-2.372** (1.078)	-3.105** (1.286)	-2.728** (1.182)
Pol. & civil rights	-0.0829 (0.305)	-0.0936 (0.304)	-0.0652 (0.279)	-0.0526 (0.335)	-0.0948 (0.261)	-0.541* (0.286)	-0.465* (0.280)	-0.440 (0.285)	-0.476 (0.323)	-0.444* (0.229)	-0.337 (0.332)	-0.293 (0.340)	-0.245 (0.324)	-0.278 (0.367)	-0.287 (0.283)
Inflation rate	-3.890*** (1.498)	-4.167*** (1.400)	-4.482** (1.818)	-4.367*** (1.672)	-3.995** (1.647)	-3.421* (1.828)	-3.386** (1.713)	-3.655** (1.814)	-3.220* (1.919)	-4.010** (1.849)	-2.975** (1.426)	-3.012** (1.169)	-3.037* (1.560)	-2.845** (1.414)	-3.256** (1.541)
Gov. exp. / GDP						0.0110 (0.0835)	0.0314 (0.0765)	0.0242 (0.0791)	0.0338 (0.0739)	-0.00962 (0.0903)					
Current acc. /GDP						0.0845*** (0.0255)	0.0828*** (0.0262)	0.0843*** (0.0289)	0.0812*** (0.0267)	0.0898*** (0.0252)	0.0589* (0.0351)	0.0588* (0.0342)	0.0649** (0.0301)	0.0570* (0.0330)	0.0675** (0.0289)
GDP cap. growth						0.182** (0.0730)	0.183** (0.0739)	0.178*** (0.0575)	0.184** (0.0747)	0.178*** (0.0568)	0.182*** (0.0651)	0.180*** (0.0649)	0.171*** (0.0537)	0.180*** (0.0647)	0.177*** (0.0548)
Investments / GDP						0.0399 (0.0491)	0.0366 (0.0511)	0.0194 (0.0523)	0.0369 (0.0498)	0.0273 (0.0507)					
Int. res. / GDP						-0.164*** (0.0567)	-0.167*** (0.0579)	-0.121* (0.0647)	-0.169*** (0.0566)	-0.115* (0.0628)	-0.162*** (0.0530)	-0.164*** (0.0537)	-0.129** (0.0560)	-0.166*** (0.0536)	-0.125** (0.0552)
Int. res. ch / GDP						-2.558 (9.165)	-3.696 (8.836)	-1.938 (9.202)	-3.212 (9.229)	-1.096 (8.968)					
Elections						-0.459 (0.513)	-0.434 (0.504)	-0.425 (0.503)	-0.448 (0.516)	-0.409 (0.503)					
Checks (logs)						-0.699 (0.564)	-0.601 (0.553)	-0.355 (0.508)	-0.661 (0.576)	-0.353 (0.523)					
US exports (log)	0.901 (0.987)				0.883 (0.833)	0.108 (0.821)				0.321 (0.697)	0.00901 (0.859)				0.261 (0.746)
US exports (log) * Cold war	-0.289 (0.412)				-0.232 (0.397)	-0.480 (0.448)				-0.591 (0.381)	-0.355 (0.407)				-0.428 (0.361)
US UNGA votes		-0.665 (6.014)			-1.908 (6.500)		-1.618 (5.305)			-0.830 (5.499)		-3.390 (5.755)			-3.901 (6.263)
US UNGA votes * Cold war		7.620 (9.845)			3.014 (9.749)		0.692 (10.05)			-7.886 (11.52)		3.102 (9.433)			-1.996 (10.97)

Table II.6a (cont): IDB Commitments, US Interests and Period, Tobit, 1970-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
US aid (log)			-0.0407 (0.0615)		-0.0647 (0.0670)			-0.0363 (0.0650)		-0.0423 (0.0705)			-0.0385 (0.0657)		-0.0447 (0.0709)
US aid (log) * Cold war			0.250*** (0.0580)		0.263*** (0.0610)			0.269*** (0.0915)		0.288*** (0.0922)			0.233*** (0.0770)		0.247*** (0.0809)
UNSC memb.				0.223 (0.564)	0.106 (0.534)				0.535 (0.705)	0.329 (0.571)				0.449 (0.666)	0.248 (0.557)
UNSC memb. * Cold war				-0.784 (1.762)	-0.557 (1.503)				-1.286 (1.811)	-0.476 (1.353)				-0.880 (1.787)	-0.298 (1.386)
Constant	59.58 (50.37)	22.74 (52.20)	-21.29 (56.68)	37.08 (48.75)	-6.146 (56.48)	43.35 (64.48)	20.44 (79.40)	-74.95 (93.60)	20.29 (74.28)	-27.04 (79.94)	49.84 (51.90)	29.86 (56.56)	-49.41 (68.97)	33.88 (53.62)	-22.65 (61.84)
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	879	879	879	879	879	758	758	758	758	758	797	797	797	797	797

Notes: The dependent variable is the loan commitments in US constant dollars (base year 2000) approved by the Inter-American Development Bank (IDB) to borrowing country *i* in year *t* in logarithmic scale. Standard errors are clustered by country, reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table II.6b: IDB Commitments, US Interests and Period, Marginal Effects, Tobit, 1970-2007

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
US exports (log)	at Cold war	0.612 (1.056)				0.651 (0.900)	-0.372 (0.944)				-0.269 (0.874)	-0.346 (0.911)				-0.167 (0.871)
	at Post war	0.901 (0.987)				0.883 (0.833)	0.108 (0.821)				0.321 (0.697)	0.00901 (0.859)				0.261 (0.746)
US UNGA votes	at Cold war		6.955 (8.687)			1.106 (8.535)		-0.926 (9.537)			-8.716 (10.98)		-0.288 (8.986)			-5.897 (10.13)
	at Post war		-0.665 (6.014)			-1.908 (6.500)		-1.618 (5.305)			-0.830 (5.499)		-3.390 (5.755)			-3.901 (6.263)
US aid (log)	at Cold war			0.209** (0.0875)		0.198** (0.0909)			0.232** (0.108)		0.245** (0.107)			0.195** (0.0960)		0.203** (0.0984)
	at Post war			-0.0407 (0.0615)		-0.0647 (0.0670)			-0.0363 (0.0650)		-0.0423 (0.0705)			-0.0385 (0.0657)		-0.0447 (0.0709)
UNSC memb.	at Cold war				-0.561 (1.484)	-0.450 (1.287)				-0.751 (1.346)	-0.148 (1.098)				-0.431 (1.320)	-0.0499 (1.075)
	at Post war				0.223 (0.564)	0.106 (0.534)				0.535 (0.705)	0.329 (0.571)				0.449 (0.666)	0.248 (0.557)
Matrix C		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Matrix F		No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No
Matrix F (robust)		No	No	No	No	No	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Country fixed effects		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations		879	879	879	879	879	758	758	758	758	758	797	797	797	797	797

Notes: Marginal effects reported and only exhibited for the variables of interest. The dependent variable is the loan commitments in US constant dollars (base year 2000) approved by the Inter-American Development Bank (IDB) to borrowing country *i* in year *t* in logarithmic scale. Matrix C stands for basic controls, Matrix F for loan supply and demand factors, and Matrix F (robust) for robust loan supply and demand factors. Standard errors are clustered by country, reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Chapter 3:

Are “New” Donors Challenging World Bank Conditionality?

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III.1. Introduction

Development aid provided by donor countries outside the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) is often perceived as an alternative of last resort for developing countries financing poverty reduction programs (Kurlantzick 2006, Downs 2011). Furthermore, non-DAC donor participation in worldwide development activities has been regarded as a main challenge to achieving sustainable indebtedness levels and consistent growth policies (Dahle Huse and Muyakwa 2008). This group of “new” donors includes important contributors such as China, allegedly the second largest donor in Africa in the 2000-2010 period, and Saudi Arabia, reported to be the largest donor worldwide in terms of aid effort in the 1970-1995 period (Neumayer 2003, Strange et al. forthcoming). The potential threat rests on the argument that the operations of new donors are frequently not coordinated with those of DAC donors. For example, recipient countries unwilling to adhere to the requirements of the DAC might find in the new donors a source of otherwise unattainable funding.

The DAC could plausibly counteract the adverse effects of additional incoming resources from new donors by calling for reform in their beneficiary countries. These eventual reforms could be promoted through conditions attached to loans delivered via organizations in which DAC donors are influential, namely the Bretton Woods Institutions (Dreher and Jensen 2007, Bresslein and Schmaljohann 2013). For example, credit conditions might set specific economic targets if development aid from new donors is causing debt overhang in a borrowing country. On the other hand, DAC donors may be forced to offer loans with fewer conditions to “stay in the business” and attract recipients who are faced with an increasing number of options in how to finance their development programs. Through its analysis of World Bank conditionality, this chapter seeks to identify how a DAC-led organization reacts to the presence of new donors. It also compares this response to that of DAC donors engaging in development bilaterally in order to better understand the particularities, if any, in the institutional and state-level reaction to new donors. Specifically, the study measures the impact of aid from a wide range of new donors on World Bank conditionality, and contrasts it with the impact on DAC donors. The analysis is

restricted to African recipients due to data constraints.³⁹ The assessment focuses on World Bank conditions because it is the leading International Financial Institution (IFI) in Africa and therefore the main vehicle through which DAC donors can demand reforms.

A number of studies highlight the fact that at the time of committing a loan, new donors do not request policy change to the governments of recipient countries (e.g., Villanger 2007, Strange et al. 2013). New donors may avoid getting involved in the domestic agendas of their beneficiaries due to political support or large economic rents derived from the proposed projects (Bräutigam 2009). In addition, it is more comfortable for recipient countries to obtain credits that do not require reforms to be implemented. This choice of recipient countries by non-DAC donors is quite common. As the empirical analysis by Mwase (2011) finds, BRIC countries allocate aid to developing countries with weak institutions and governance which the Bretton Woods institutions perceive as risky to finance. There are different views on how DAC-led organizations are reacting to the increasing activities of the new donors. Some suggest that these institutions have indeed called for more coordination with the new donors. Berger et al. (2011) report the willingness of both sides to agree on potential reforms to turn aid more effective and sustainable. Conversely, others claim that new donors have been reluctant to work from a common front and act rather independently when it comes to negotiate with recipient countries on financing options for development projects. Several cases are reported in Kurlantzick (2006) and Naim (2007) in which different countries turned down loans from the International Monetary Fund (IMF) and the World Bank in favor of resources from the Chinese government because the prior demanded government reform to guarantee disbursements while the latter did not. Pehnelt (2007) even points out that the engagement of China enables African governments to reject demands by the IMF and the World to enhance transparency, implementing anti-corruption strategies and furthering their democratization efforts.

This study is the first to link World Bank conditions with the activities of new donors. Empirical results based on a panel consisting of 54 African countries over the 1980-2013 period indicate that the design of World Bank conditionality is influenced by the presence of new donors. In particular, the World Bank delivers loans with significantly fewer conditions to recipient countries which are assisted by China. Less stringent conditionality is also observed in

³⁹ Data on Chinese aid commitments is only available for Africa. Section 3 introduces the dataset employed.

better off borrowers that are in addition funded by Kuwait and the United Arab Emirates, but this effect vanishes after the start of the new millennium. In contrast, World Bank conditionality is rarely affected by aid inflows from DAC donors, and when it is, conditionality is revised upwards. These findings suggest that new donors might be perceived as an attractive financial option to which the World Bank reacts by offering credits less restrictively in order to remain competitive in the loan-giving market. The remaining of the chapter is structured as follows: Section III.2 presents an overview of World Bank conditionality and how lending from new donors might influence it, section III.3 describes the dataset and estimation employed, section III.4 analyzes results obtained, and finally conclusions are derived in section III.5.

III.2. World Bank Conditionality and New Donors

The World Bank was created at the Bretton Woods Conference in 1944. Credit conditions have been requested since its creation, however they were not explicitly stipulated to be part of the loan negotiation process during its first decades of operation (Dreher 2004). Conditionality only became a critical matter in World Bank lending practices in the early 1980s following the introduction of structural adjustment programs. These programs are designed for countries experiencing economic crises and aim to achieve long term or accelerated growth by restructuring their economy and reducing government intervention. In order to guarantee the release of funds or to improve the concessional terms of credit, recipients are required to implement specific policies. The rising demand for structural adjustment programs, mainly focusing on resolving short-term economic imbalances, is largely responsible for the growth in the amount of loans delivered with attached conditions throughout the 1980s (World Bank 2005, 2014). Before the advent of structural adjustment programs the World Bank lacked the leverage to negotiate agreements with recipient country governments. The demand for these programs from the developing world allowed the Bank to prescribe detailed policies attached to the loans it gave helping conditionality to proliferate (Dreher 2004). In addition, the fact that some of the largest shareholders of the World Bank received credits up until the mid-1970s might also explain the upsurge of conditions of the 1980s. It is plausible that these countries made use of their influential position as shareholders to prevent the spread of loan conditions while they were

receiving funds from the Bank (Dreher 2004). The average number of conditions per World Bank project remained stable during the 1990s, but has been steadily decreasing since the beginning of the last decade (World Bank 2014). Today conditions are mostly means to induce mid-term institutional changes, which might explain the downward trend (World Bank 2005). This decrease may also possibly reflect the demand for World Bank resources in the market. The availability of other attractive financial options, for example, could pressure the World Bank to offer credits with fewer conditions to remain competitive (Dreher 2004). The World Bank has tended to react to this excess in supply by offering loans with fewer conditions (Kapur et al. 1997). The increasing participation of the new donors in the financing of development projects can provide within this framework an alternative explanation about the change of the World Bank's position towards its conditionality in the last decade. This chapter starts from this framework to develop its hypotheses.

Conditions primarily serve two purposes: to enhance aid effectiveness and safeguard resources. They encourage recipient countries to take short term measures to solve macroeconomic imbalances and to introduce policies to establish the foundations for long term growth. Conditions should promote a safer economic and political environment in the recipient country that concurrently allows for efficient project implementation. In addition, conditionality is meant to ensure the solvency of the recipient country to enable it to repay its loans and consequently protect the World Bank's resources. Amongst other macroeconomic changes, stabilization programs typically involve reducing budget deficits by increasing taxes and/or decreasing government spending, restructuring foreign debts, reducing the balance of payments deficit through currency devaluation, or using monetary policy to finance government deficits (World Bank 2014). Moreover, long term adjustment policies usually recommend the privatization of state-owned companies, measures to improve governance and fight corruption, and market liberalization (World Bank 2014). World Bank conditions can be either prior actions or benchmarks. Prior actions are critical policy and institutional arrangements that a country agrees to take before the Board approves a loan. In cases where the loan is disbursed in several tranches, some of them may need to be met only after Board approval and satisfied before a specific tranche is released. If they are not fulfilled, the tranche may be released only if the Board agrees to waive the conditions (World Bank 2005). Benchmarks, on the other hand, are not

conditions in a literal sense, as non-compliance does not necessarily imply a freeze in disbursements. They can be seen as implementation progress markers of the program that reflect improvements towards significant policy or institutional change (World Bank 2005).

The supply of conditions is traditionally perceived as the product of the negotiation between three actors: The World Bank, the recipient country and influential shareholders. McLean and Schneider (2014) provide a detailed outline on the dynamics of this process. Under this view, the Bank and the borrower's government have a common long term goal, namely fostering economic development in the recipient country, but the interests of both parties may diverge in the short term. This is because, while the World Bank has the fundamental interest to use conditionality as an instrument to ensure the effectiveness of its projects, the recipient government might turn to the World Bank for financial assistance to remain in office and implement a set of preferred policies while in power. The negotiation process reveals whether there is a divergence of interests and powerful members can intervene here to resolve any issues. When powerful members have an interest in the recipient, they are likely to support these countries in the negotiation process and aid them in achieving the level of conditionality that they propose. When powerful members decide not to intervene, the World Bank chooses its preferred level of conditionality given a sufficient bargaining power. Therefore, as McLean and Schneider (2014) point out, the supply of conditions can be considered as the result of a bidding competition between what the World Bank believes is necessary to ensure the success of the project and what it is able to implement conditional on the bargaining power of borrowers in the negotiation process and the intervention of influential shareholders to protect their own interests. In this situation, the borrower still has the option of not accepting the conditions, and therefore of rejecting the credit, if it assigns higher value to a scenario without the financial assistance of the World Bank. Nevertheless, borrowers might have outside financial options and that this fact can shape the supply of World Bank conditions is often ignored in the literature. For example, the availability of alternative resources can strengthen the bargaining power of the recipient country and change the likelihood that influential shareholders will intervene in the negotiation process. The influential shareholder and the outside option could even engage in a "race to the bottom" in terms of conditions offered if the borrower is of strategic importance to both of them. New

donors represent these outside options and their expanding activities can potentially influence the outcome of the negotiation process between the World Bank and recipient countries.

Empirical studies on World Bank conditionality are scarce because data did not become fully available until recently. Most of them focus on the effects of compliance with conditions and on the influence of major shareholder interests in the design of conditionality. Svensson (2003) analyzes around 200 World Bank structural adjustment programs and observes that the disbursement of loans is not linked to complying with conditions: in other words, disbursement decisions are independent of reform efforts in recipient countries. Looking at these results, the author proposes that the implementation of conditions be incentivized and that a stricter system to punish non-compliance be enacted in order to channel aid to environments where it could be effective. Kilby (2009) provides an insight as to why borrowers might not comply with World Bank conditions. The study finds evidence that poor macroeconomic performance and non-compliance with conditions only lead to lower loan disbursements if the borrower is not a political ally of the US. Therefore, if the recipient is of strategic interest to the US, they might not have sufficient incentive or the necessity to comply with conditions. Within this same line of argumentation, McLean and Schneider (2014) suggest that the interest of major shareholders in the recipient country does not affect the supply of World Bank conditions. The reason for this is that large shareholders still have the option in a later stage to influence the decision of disbursing a loan in situations of non-compliance by recipient countries that are of their interest. On the other hand Bresslein and Schmaljohann (2013) find that the commercial interests of influential shareholders of the World Bank affect the supply of trade liberalization conditions. They show that Germany exerts control to introduce more conditions to promote trade, while the United States makes use of its influence to request fewer conditions as a protectionist measure. In contrast, an empirical analysis of how the supply of World Bank conditions is affected by aid from new donors has not yet been attempted; this is the gap in the literature this chapter wants to fill.

The rise of new donors has been acknowledged in the literature. There are no comprehensive official figures for Chinese development assistance, but estimates situate China between the second and sixth largest single donor to Africa in the 2000-2010 period, depending on the definition of Official Development Assistance (ODA) employed to measure aid flows

(Strange et al. forthcoming). Saudi Arabia has been reported as the largest donor worldwide in terms of aid effort in the 1970-1995 period, while the aid to GNI ratio was also exceptionally high for Kuwait and the United Arab Emirates in the 1970s and 1980s, peaking at 8.5 percent and 12 percent respectively (Neumayer 2003). Nearly one third of all aid during the 1970s was delivered by Arab donors, and although their aid effort has been diminishing over time, it still exceeds the average among DAC donors (Rouis 2010). Moreover, India is considered, together with China, as one of the two “heavyweights” among the new donors and its activities are rapidly expanding (Fuchs and Vadlamannati 2013).

Information on conditionality at the project level on aid from new donors is not publicly available. However, several studies have reported it to be either lax or even absent from their credits. In the case of China, this is likely due to its principle of non-interference stipulated in its “Eight Principles of Foreign Economic and Technological Assistance” in 1963, proposing that Chinese aid allocation should be independent of regime type or governance quality in the borrower country. In addition, China’s White Paper on Foreign Aid in 2011 specifies that China does not use aid to intervene in the internal affairs of recipient countries or to seek political privileges. Strange et al. (2013) cite numerous examples of Chinese aid delivered with few or no conditions. There is less evidence on aid conditionality from Arab donors, but it has also been seen as following the non-interference principle. Arab donors limit advice on policy matters to situations where they are asked for guidance and do not explicitly link access to credit to reform targets (Rouis 2010). Democracy and governance issues are not part of the Arab aid dialogue, but the execution of projects is closely monitored to prevent corruption (Villanger 2007). Indian aid is expected to come with few conditions attached as most of it is in the form of technical assistance (Fuchs and Vadlamannati 2013). This low or no conditionality approach is to a great extent risk free for new donors because they tend to resort to other means, instead of credit conditions, to secure credit repayments. They often demand borrowers to award investment contracts to companies from their own countries or accept natural resources as collateral for their loans rather than insisting on fiscal rectitude (Bräutigam 2009, The Economist 2015). Chinese aid in Africa, for example, is often seen as securing the flow of natural resources to China (Foster et al. 2008, Berthelemy 2011).

Assuming that aid from new donors is usually delivered with few or no conditions, the World Bank could react to their presence in two different ways. First, it could propose a larger number of conditions to address the potential macroeconomic effects that the availability of inexpensive lending might cause, or, second, it could ask for less reform to remain competitive in the international loan market. Which of the two effects prevails depends mainly on the extent to which the supply of development resources meets the needs of the recipient country. In the first case, new donors are not per se a financial alternative to the World Bank because the latter does not completely satisfy the borrower's demand for aid. Recipient countries will therefore use both credit sources to finance different development projects. Here, the World Bank can revise its conditionality upwards to adjust for the effect of the activities of new donors on the recipient's economy. If new donors are considered a threat to debt sustainability, it is expected that the Bank will request stricter reforms. A loan negotiation between China and the Democratic Republic of the Congo (DRC) in 2008 can illustrate this scenario. The deal granted a mineral concession to a consortium of Chinese companies in exchange for infrastructure development. It was worth \$9.2 billion or at least 90 percent of the DRC's GDP, raising concerns about the DRC's debt sustainability which, at the time, constituted 93 percent of its GDP and 502 percent of its government revenue (Jansson 2011). If the deal had been signed, the DRC would have been disqualified from a large scale debt relief from the World Bank, the IMF and DAC donors. Finally, the government of the DRC ended the negotiation by reducing the size of the loan to \$3 billion and annulling the requirement to provide mining assets as loan collateral in order to meet the eligibility conditions for the debt relief initiative (Manson 2010).

In the second case, the additional aid offered by the new donors causes an excess in the supply of development resources and therefore recipient countries can choose from different options to finance a project. The recipient selects the most attractive alternative and the World Bank might have to offer a competitive level of conditionality and concessionality if it is interested in keeping its presence in the country in question. Even though no evidence is available on the revision of credit conditionality as a consequence of an excess in the supply of development resources, there are substantial examples of World Bank loans being rejected in favor of more appealing financial options offered by new donors. Kurlantzick (2006) and Naim (2007) report several such cases. One of them involves a series of decisions taken by the Angolan

government to finance the rebuilding of its country after the end of the civil war in 2002. Right before the end of war, the IMF together with the World Bank planned to provide financing and assistance for the reconstruction activities with conditions of market liberalization, transparency improvements, and the termination of accepting oil as collateral for short-term loans. Although market liberalization policies were gradually implemented, improvements in transparency were insignificant. Before Angola adjusted to these demands, China proposed it an oil collateral loan worth \$2 billion with a concessional interest rate of 1.5 percent over the Libor, repayable over 17 years with a 5-year grace period. The credit was agreed in 2003 and disbursement began in 2004. By 2010 total Chinese aid commitments to Angola were around \$14.5 billion. The Angolan government refused the structural adjustment program and accepted the alternative from the new donor. Another example involves the rejection of an already agreed-upon loan between the government of Egypt and the IMF and the World Bank to cover a large budget shortfall resulting from Egypt's economic collapse after President Hosni Mubarak was removed from office in 2011. The credit was worth \$3 billion and its main conditions were greater transparency in public finances and a better-targeted subsidy system. Right after the rejection of this credit, the governments of Qatar and Saudi Arabia offered Egypt a \$1 billion grant completely free of conditions for budgetary support. Egypt opted for the Arab donors' proposal, as it was more attractive for the new Egyptian government to remain in power and solve its budget imbalances.

We expect that the World Bank would react to lending from DAC donors as it did in the first case with the new donors. DAC donors are not expected to offer a recipient country an alternative credit for a project if another deal has been already reached with the World Bank to finance the same project. Some of the DAC donors are among the most influential members in the World Bank and therefore the two sides are unlikely to engage in a race to the bottom via conditionality. It is then improbable that the World Bank will find itself in a situation where there is an excess supply of development resources due to DAC donor activities. In cases where both the World Bank and DAC donors are lending to the same country, the Bank is expected to revise its conditionality upwards only in cases DAC loans could threaten the borrower's macroeconomic stability. Given this reasoning we test the hypothesis:

Hypothesis 1: The World Bank will revise its conditionality downwards if the presence of new donors creates an excess supply of development resources in the recipient country and

upwards if it does not. The World Bank will revise its conditionality upwards with the presence of DAC donors.

In addition, the bargaining power of the recipient country should influence the extent to which the World Bank revises its conditionality with the presence of other donors. As previously mentioned, the supply of conditions is the outcome of a negotiation process between the World Bank and the recipient country. The presence of other donors is expected to affect the supply of conditions because having numerous financial options increases competition and therefore the chances that the World Bank will offer a level of conditionality closer to that desired by the recipient country. The greater the bargaining power of the recipient country, the more likely it is that they will achieve more favorable outcomes with the presence of alternative donors. Bargaining power is usually measured with GDP per capita, hence middle income countries are expected to have more bargaining power than low middle income countries (Dreher 2004). Assuming that recipient countries prefer loans with fewer conditions, the following hypothesis has been developed:

Hypothesis 2: If the World Bank revises its conditionality upwards, the increase should be larger for low income borrowers, and if it is revised downwards the decrease should be larger for middle income countries.

III.3. Data and Methods

The data analysis of this study is based on a panel consisting of 54 African countries over the 1980-2013 period. The model estimates World Bank conditions as a function of aid delivered by new and DAC donors and other recipient country characteristics to test hypotheses 1 and 2. The dependent variable measures the average number of World Bank conditions per project committed to country i in year t . The number of conditions is a proxy for loan stringency given that it is not possible to quantify and compare the severity of a single condition in an objective way. With this approach exactly the same weight is assigned to each condition attached to a loan. This proxy has been repeatedly used in studies on conditionality.⁴⁰ The dependent variable is

⁴⁰ See for example Dreher and Jensen (2007) and Bresslein and Schmaljohann (2013).

constructed using the Development Action Database from the World Bank, which contains information on all conditions negotiated for every loan the World Bank has supplied since 1980.

Figure III.1 depicts the average number of World Bank conditions negotiated per project with countries in Africa for the 1980-2013 period. As can be seen, World Bank conditionality is largely variable over the period of analysis. From an average number of conditions per loan of 6.5 in 1980, it increases sharply through the 1980s, reaching a maximum of 36.5 in 1988. It remains equal to or above 20 for almost every year until 2007, and drops significantly afterwards taking a value of 7.6 in 2013. As mentioned above, the upward trend coincides with the Bank's creation of adjustment lending programs in the early 1980s, and the latter downward trend might be a consequence of changes in the scope of conditionality and the excess supply of development resources. The distribution of conditions amongst African countries over the 1980-2013 period is shown in Figure III.2. Algeria and the Republic of the Congo stand out having on average 48 and 39.7 conditions respectively for every loan they obtained from the World Bank. Algeria regularly received financial assistance during the 1990s, from which a loan from the World Bank's International Bank for Reconstruction and Development (IBRD) approved in 1995 worth \$150 million and including 77 conditions excels. This credit was intended to accelerate the implementation of economic policy reforms in order to overcome the weakening of oil prices, the drying up of external financing and rising inflationary pressures. Highest loan stringency for the Republic of the Congo is the result of a \$70 million IBRD credit with 51 conditions in 1988. It consists of a structural adjustment program aimed at restoring the balance between the public and private sector to overcome severe fiscal and economic imbalances and to foster growth of non-oil sectors. On the right end of the graph are found Djibouti, Lesotho and Seychelles, each with less than 8 conditions per project on average. The lowest loan stringency in these three countries correspond to projects financed jointly by the IBRD and the World Bank's International Development Association (IDA), not exceeding \$20 million each, approved between 2008 and 2013, and containing at most 6 conditions. Moreover, the database does not provide any information on conditionality for World Bank projects in the following countries: Angola, Botswana, Eritrea, Libya, South Africa, South Sudan and Swaziland. Given that some of these countries received resources from the World Bank during the 1980-2013 period, while others did not, these observations cannot be assumed to be zero and are therefore taken as missing values.

The kernel distribution for the average number of World Bank conditions per project is presented in Figure III.3. Highest densities are observed when conditions are on average between 10 and 20. Additionally, only a small proportion of loans contain more than 40 conditions and the distribution reaches a maximum of 97. For this reason, the graph is clearly skewed to the left. This characteristic and the fact that the number of conditions is by nature count data, makes a negative binomial the estimation of choice. A negative binomial is preferred to a poisson, because this estimator relaxes the assumption that the mean and variance of the distribution must be equal, which is not the case here (refer to Appendix III.2). Further tests implemented, that analyze the fit of the model by looking at its residuals, confirm that a negative binomial is preferable to other estimators addressing over dispersion.⁴¹ The following equations summarize the empirical strategy employed:

$$\text{AvConditions}_{it} = \beta_0 + \beta_1 \text{AvField}_{it} + \beta_2 \text{WBComm}_{it} + \beta_X X_{it-1} + \beta_j \text{Donor}_{jit-1} + \mu_j + \gamma_t + \varepsilon_{it} \quad (1)$$

$$\begin{aligned} \text{AvConditions}_{it} = \beta_0 + \beta_1 \text{AvField}_{it} + \beta_2 \text{WBComm}_{it} + \beta_X X_{it-1} + \beta_j [\text{Donor}_{jit-1} * \text{LowIncome}_{it-1}] \\ + \mu_j + \gamma_t + \varepsilon_{it} \end{aligned} \quad (2)$$

The equation in (1) tests for hypothesis 1, where AvConditions_{it} is the average number of conditions per World Bank project a country i receives in year t . The average is rounded to the closest integer to keep the observations as count data. The key explanatory variable Donor_{jit-1} is the loan commitments made by donor j to country i bilaterally in period $t-1$. It is expressed in logarithmic form to minimize its variance and lagged one period to address possible endogeneity.⁴² Both new and DAC donors are considered. The first group includes new donors with significant activities in Africa and for which information on their aid allocation was available at the time of completing this study. These are China, India, Kuwait, Saudi Arabia and the United Arab Emirates.⁴³ The data is retrieved from the AidData Project and the length of the series differs for every donor. While data for the Arab donors are usually available from the 1970s or earlier, for China and India they are only available since 2000 and 2005 respectively.

⁴¹ These tests are not shown here but are available upon request.

⁴² A value of 1 is added before the logarithmic transformation to keep the zero observations.

⁴³ Brazil is also a new donor with significant activities in Africa. These are, however, mostly concentrated in four countries: Angola, Cape Verde, Mozambique and Sao Tome and Principe.

Except for China, the information on the size and distribution of the loans originate from official records. The estimate for Chinese aid is based on media reports.⁴⁴ Given that there is no complete information regarding the concessional terms of every project financed by the Chinese government, the AidData Project produces different estimations of Chinese “aid”. This study makes use of the most conservative statistic, denoted as strictly ODA, which is the closest to the DAC's definition of ODA (Strange et al. 2013).⁴⁵ The second group consists of the five largest DAC donors in Africa, namely France, Germany, Japan, the United Kingdom and the United States. The series are official records and obtained from the OECD, and they are available beginning in the 1960s for each of the five donors. The equation in (2) tests for hypothesis 2 and includes an interaction term between aid commitments from every donor and $LowIncome_{it-1}$, a dummy variable signaling if recipient country i belongs to the list of low income countries of the World Bank in year $t-1$.⁴⁶ It allows us to evaluate the impact on conditions for both income groups separately.

Figure III.4 shows the average value of the loans delivered bilaterally by each donor for the 1980-2012 period, and compares them to the World Bank equivalent. It reveals that, with the exception of China, the main five DAC donors still have a comparatively larger presence in Africa than the new donors. It also confirms the emergence of China as a relevant player in the aid architecture in Africa.⁴⁷ The United States is the single largest debtor, having committed close to \$5.6 billion on average every year in the abovementioned region and time frame, surpassing

⁴⁴ According to Strange et al. (2013), the AidData Project methodology for gathering and standardizing information on Chinese development projects is divided into two stages. During the first state, projects are identified through Factiva, a Dow Jones-owned media database. Factiva draws from approximately 28,000 media sources worldwide in 23 languages. Most of these sources are newspapers, radio and television transcripts. In the second stage, targeted searches are conducted for projects initially identified during the first stage.

⁴⁵ AidData Project's strictly ODA includes technical assistance and scholarships, loans with a large grant element, grants with development intent (financial or in-kind), debt relief and military aid with development intent. The other main and broader definition, referred to as Official Finance (OF), also includes loans with or without a small grant element, grants without development intent (financial or in-kind) and other lines of credit.

⁴⁶ The World Bank defines low-income countries as those with GNI per capita equal to or below a certain threshold. This threshold is adjusted over time and in 2013 reached a value of \$1,045. Countries are classified every year according to the current GNI per capita level.

⁴⁷ A broader and less precise estimation of Chinese aid in Strange et al. (2013) suggests financial assistance from China to Africa to be on average as high as \$7.6 billion per year during the 2000-2012 period. This figure situates China as the current largest single donor in Africa. This estimation is, however, not compatible with the definition of ODA by the DAC.

the World Bank's average yearly loan amount by almost \$1 billion. France follows close by with \$4.5 billion each year. The remaining three main DAC donors have allocated on average between \$1.5 and \$2.5 billion in aid each throughout the period of analysis. Chinese funding of developments projects in Africa, as previously indicated, is as high as that of the United Kingdom or almost \$1.5 billion per year. Kuwait and India are the second and third most important new donors in Africa respectively, each lending around \$500 million a year. Note that the average value for China corresponds to the 2000-2012 period while for India it corresponds to 2005-2010. And finally, Saudi Arabia and the United Arab Emirates are the smallest of this group of new donors, each providing around \$200 million per year.

Statistics on World Bank conditions in relation to bilateral aid from new and DAC donors are presented in Figures III.5a and III.5b. Each of the small diagrams represents an individual donor. The dataset is plotted taking into account two different dimensions: First, whether or not a recipient country was funded by an individual donor in a specific year with an amount that is above that same donors' aid allocation average in Africa during that same year. The resulting categories are labeled as "Below" or "Above" the average in the graphs. And second, whether or not the recipient country is classified as low income or middle income by the World Bank. These two groups of countries are identified as "Middle Income" or "Low Income" in the graphs, and an extra category "Total" is added that takes into account all countries. The first bar in the first diagram in Figure III.5a, for example, represents the average number of conditions attached to each World Bank project for all recipient countries with below the average funding from the new donors and considered a middle income country by the World Bank. As can be seen from Figure III.5a, World Bank borrowers in Africa are requested to comply on average with fewer conditions per project if the supply of loans from new donors is comparatively large.⁴⁸ This outcome is more evident in middle income countries, as those relatively better off in terms of new donors' financing receive on average 14.6 conditions per project, while their counterpart receives 24.1. As for low income countries, the difference is on average less than 1 condition for every loan. The situation is similar when looking at new donors individually. Excluding Saudi Arabia, the number of conditions per World Bank project is on average lower if the allocation of aid by any

⁴⁸ Total new donor aid comprises resources allocated by the five new donors under consideration in this study.

of the new donors is relatively more generous. Differences are also more pronounced in middle income countries, except in India and in the United Arab Emirates.

In contrast, the opposite relationship is observed in Figure III.5b where funding from DAC donors is considered. World Bank conditions are on average more numerous in recipient countries that obtain comparatively more resources from all DAC donors.⁴⁹ The World Bank delivers on average 17 conditions to borrowers that receive assistance above the mean value of all aid allocations made by the DAC donors in Africa, while this figure is 11.8 for countries that receive below the mean value. This holds true for each of the main five DAC donors, however this difference is small for the United Kingdom and the United States. Differences are more accentuated in middle income countries than low income countries, except for, once again, the United Kingdom and the United States.

Continuing with the description of the equation regression, $AvField_{it}$ stands for the average number of fields that conditions cover in each of the loans negotiated between the World Bank and country i in year t . Fields are simply the different economic sectors that conditions target.⁵⁰ A World Bank project involved in a broader number of fields is more likely to contain, *ceteris paribus*, a larger number of conditions. The variable $WBComm_{it}$ corresponds to the value of all loans committed by the World Bank to country i in year t and expressed in logarithmic form.⁵¹ Larger World Bank credits are expected to have more conditions attached, as it is expected that more ambitious projects require greater reform. Matrix X comprises a set of control variables that further explain the variability of World Bank conditions. Following Dreher and Jensen (2007) and Bresslein and Schmaljohann (2013), it includes, first, economic conditions in recipient countries measured by GDP per capita, GDP growth, the inflation rate, government expenditures, international reserves, the investment rate and external debt. Second, it includes the interests of the shareholders of the Bank, addressed by the voting alignment in the UN General Assembly between recipient countries and the United States. And lastly, it takes account of the political conditions of recipient countries, evaluated by a democracy index. All control variables

⁴⁹ Total DAC aid comprises resources allocated not only by the main 5 DAC donors under consideration in this study, but by all 29 DAC donors.

⁵⁰ The Development Action Database recognizes 10 different economic sectors that conditions might cover: Agriculture, Fishing and Forestry; Public Administration, Law and Justice; Information and Communications; Education; Health; Finance; Health and other Social Services; Industry and Trade; Energy and Mining; Transportation; and Water, Sanitation and Flood Protection.

⁵¹ A value of 1 is added before the logarithmic transformation to keep the zero observations.

in X are lagged one period, as allocation decisions taken by the Board are based on observed information from the preceding year. Unconditional country-fixed and time-fixed effects are denoted μ_j and γ_t respectively, and the error term ε_{it} is clustered by recipient country. A description of all variables is presented in Appendix III.1 and descriptive statistics in Appendix III.2.

III.4. Empirical Results

Empirical results from the negative binomial model in equation (1) and testing for hypothesis 1 are shown in Tables III.1a and III.1b. These present the effect of each donor's bilateral commitments on the average number of World Bank conditions per project in Africa for the 1980-2013 period. Table III.1a contains outcomes for all new donors under study, namely China, Kuwait, India, the United Arab Emirates and Saudi Arabia. The first column in this table considers bilateral aid commitments from the five new donors together. The same procedure is followed for the DAC donors and its results are shown in Table III.1b. Here the first column shows the overall effect of bilateral aid commitments from all 29 DAC donors combined. In both tables, model specifications in columns 1 to 7 include all control variables in Matrix X , while those in columns 8 to 16 only include statistically significant control variables. Marginal effects are reported and evaluated at the mean of each variable. Starting with the results for the first variable in the model, marginal effects for the average number of fields covered by the conditions in a loan are positive and significant at conventional levels. As expected, a World Bank program seeking to impact economic activities in numerous sectors is more likely to contain more conditions. This effect remains robust across every model specification. On the other hand, the size of a World Bank loan does not determine its level of conditionality, as the marginal effects for the World Bank commitments variable never reach significance. It is then broader project scopes rather than their magnitude that better predict loan stringency.

From the variables in Matrix X , the only one whose marginal effect remains significant at conventional levels across every regression is external debt. As can be seen in both Tables III.1a and III.1b, larger external debts in borrowing African countries result in significantly more World Bank conditions in each project negotiated. This result is not surprising. Conditions usually aim

to correct fiscal imbalances in recipient countries with higher debt levels, in order to guarantee not only sustainable economic growth but also the government's capacity to repay the loans in the future. Other control variables are significant at conventional levels in certain cases but they are not robust, such as GDP per capita, GDP growth, the inflation rate, international reserves, the investment rate, UN General Assembly voting affinity with the US, and ratings on the democracy index.

Turning to the results for the main variables of interest in Table III.1a, the marginal effect of bilateral aid commitments from each of the new donors enters the equation with a negative sign, except for Saudi Arabia. The only new donor whose effect is significant at conventional levels, however, is China. The size of the marginal effect indicates that a 1-log-point increase in the average an African country typically receives in Chinese aid commitments results in the delivery, in relation to its mean, of 16 percent fewer World Bank conditions per project in the year after the increase.⁵² This result does not hold if only statistically significant control variables are included in the model specification. However, the negative impact of Chinese aid is robust to the choice of control variables when the individual effect of loan commitments allocated by every new donor is also addressed, as shown in columns 7 and 14 of Table III.1a.⁵³ In both cases, the marginal effects of Chinese loan commitments are almost equal in terms of sign, significance levels and size. This outcome shows that fewer World Bank conditions are associated with larger aid inflows from China, *ceteris paribus* holding flows from other new donors constant. The presence of China seems to create an excess supply of development resources to which the World Bank reacts by offering less stringent loans to reach the borrowers. This holds true except if the recipient country obtains aid from Kuwait as well. This is because the marginal effect for Kuwaiti bilateral aid commitments is positive and significant at conventional levels in the same model specifications comprising all new donors. A means test reveals that the sum of the marginal effects for Chinese and Kuwaiti aid is not significantly different from 0.⁵⁴ Therefore, World Bank loan stringency will not be revised downwards if the borrower is being financed by China and

⁵² The log-point increase is calculated through the formula $(\exp^{me}-1)$, where *me* are the marginal effects.

⁵³ The analysis of the effect for every new donor simultaneously excludes bilateral commitments from India to avoid a considerable drop in the sample size. This applies not only to the specifications in columns 7 and 14 of Table III.1a, but also for those in Table III.2a.

⁵⁴ The two tailed test has as null hypothesis $H_0: \beta_{j1}[\text{China Comm.}] + \beta_{j3}[\text{Kuwait Comm.}] = 0$. The chi square statistic obtained is 0.21 and its corresponding p-value is 0.65 suggesting that the null hypothesis cannot be rejected at conventional levels.

Kuwait at mean values. Kuwait is perhaps financing projects in different economic sectors in which the demand for aid is not completely met. The World Bank may be engaging in a race to the bottom in the economic sectors where China is present, and at the same time demanding more reform in those where Kuwait is present.

Results for the DAC donors, presented in columns 1 to 7 in Table III.1b, show that the marginal effects take the expected positive sign for each of the variables measuring aid commitments. Nevertheless, they all fail to reach significance at conventional levels, except for the United Kingdom. But even for the UK, the marginal effects are insignificant in the model specification with only statistically significant controls, as shown in columns 8 to 14. These outcomes indicate that the negotiation of credit conditions between the World Bank and African recipient countries is independent of activities simultaneously carried out by DAC donors. The World Bank does not perceive DAC donor resources as a threat to macroeconomic stability in the recipient country and therefore does not see a need to revise its conditionality.

In order to confirm that results are not greatly determined by the different lengths of the aid commitments series from each of the donors, Tables III.2a and III.2b exhibit results from replicating the previous strategy but restricting its time frame to 2000-2012. This period is chosen to match that of Chinese aid commitments. As can be seen in Table III.2a, results for the new donors are similar to those obtained in the analysis for the whole period. As before, the impact of Chinese and Kuwaiti aid is negative and positive respectively in the model specification addressing lending from all new donors individually, and both of the marginal effects are significant at conventional levels. They are also in these two cases robust to the choice of control variables, and their sizes comparable to the ones in the assessment with complete series. On the other hand, results in Table III.2b reveal a different pattern for the DAC donors. If the analysis is restricted to the most recent observations, the World Bank's level of conditionality for African borrowers appears to take account of DAC donor aid inflows. Marginal effects are positive and significant at conventional levels for the allocation of aid from France and the United Kingdom, and so they are in the further model specifications including statistically significant control variables. The effect of being financed by the United Kingdom is smaller than being financed by France. A one percent increase in the typical funding from the United Kingdom to an African country will result in 21 percent more conditions, in relation to its average, for each World Bank

project this same country negotiates the year right after the increase. This same figure is 219 percent for French aid. This hints to a degree of coordination between the World Bank and some of the DAC donors in the design of development projects in Africa. World Bank conditionality reflects the potential risks for borrowing countries derived from receiving additional resources from the DAC donors. Tougher loan stringency is preferred in these cases to guarantee macroeconomic stability and debt sustainability instead of obviating the activities of the DAC donors. This effect might be the result of DAC donors' efforts to harmonize their development finance activities since the Paris Declaration of Aid Effectiveness in 2005.⁵⁵ It is probably for this reason that the effect only appears in the most recent decade.

Differences according to the income level of the borrower are presented in Figures III.6a and III.6b. The analysis makes use of the equation in (2) and tests hypothesis 2. Separately for low and middle income recipient countries in Africa, the graphs plot the marginal effect of each of the donors' bilateral aid commitments on the average number of World Bank conditions assigned per project for the 1980-2012 period. Figure III.6a displays results for new donors while Figure III.6b for DAC donors. The blue lines highlight the 90 percent confidence interval of the marginal effect, and the red lines the zero boundary. Although not shown, marginal effects for the control variables are evaluated at the mean. Series are subsequently restricted once again to the 2000-2012 period and the new estimations are found in Figures III.7a and III.7b. As observed in Figure III.6a, the marginal effect of new donors' aid as a whole is negative and significant at conventional levels for middle income countries, while it fails to be significant at conventional levels for low income countries. Figure III.7a corroborates that the two effects persist when the time frame starts first in 2000. Middle income borrowers receive significantly fewer World Bank conditions with increasing aid from new donors. In fact, for a middle income African country, on average a one percent increase in the overall aid from new donors will result in at least 65 percent fewer conditions, compared to its mean, per project negotiated with the World Bank in the year after the increase. The impact is fueled by Kuwait and the United Emirates, as marginal effects

⁵⁵ The Paris Declaration on Aid Effectiveness in 2005 is a DAC donor initiative to improve the quality of aid and its impact on development. It gives a series of specific implementation measures and establishes a monitoring system to assess progress and ensure that donors and recipients hold each other accountable for their commitments. The Paris Declaration outlines the following five fundamental principles for making aid more effective: ownership, alignment, harmonization, managing for results and mutual accountability.

for aid delivered to middle income countries by these two donors is negative and significant at conventional levels. Middle income countries are more likely to have access to numerous financial options because of their better repayment capacity and therefore the World Bank might face more intense competition to finance development projects in these countries. Nonetheless, marginal effects for aid commitments from these two donors become insignificant at conventional levels with the restricted times series. It is possible that the interests of Kuwait and the United Arab Emirates are becoming more aligned with those of the World Bank and they might have been coordinating their activities in Africa since the most recent decade such that each of them focuses on different partner countries or projects within a recipient. For instance, the United Arab Emirates have expressed an interest in joining the DAC and since 2010 has been officially reporting its aid activities to the committee (Smith 2011).

Moreover, results for Chinese aid are unexpected. Even though the impact of aid commitments from China on the average number of World Bank conditions is negative and significant at conventional levels, marginal effects turn significant only in low income countries. The size of the effect in low income countries is similar to that initially obtained in equation (1), or -16 percent. China delivers on average 30 percent more aid to low than to middle income countries in Africa, with the World Bank altering its level of conditionality only in response to Chinese aid to the first group of countries.⁵⁶ China's particular interest in low income countries might allow them to have more financial options despite their disadvantage in terms of bargaining power and repayment capacity, inducing the World Bank to redesign its programs in these countries. The effect of aid from the remaining new donors fails to reach significance at conventional levels for both low- and middle-income countries. Lastly, as can be seen in Figures III.7a and III.7b, results for DAC donors confirm that World Bank conditionality in Africa is not affected by aid inflows from these donors to both types of countries. As in the results for equation (1), positive impacts are only observed for aid commitments from France and the United Kingdom during the 2000-2012 period. Coordination efforts, as previously discussed, are perceived for France in low income countries and for the United Kingdom in middle income

⁵⁶ China committed on average \$47 million in aid to every low income country in Africa each year, while the same figure is \$36 million for middle income countries. Moreover, 8 out of the top 10 recipient of Chinese aid are classified of low income over almost the whole 2000-2012 period. These countries are Nigeria, Ethiopia, Ghana, Mozambique, Zimbabwe, Mauritania, Uganda and Zambia. The two remaining middle income countries are Egypt and Angola.

countries after 2000. These results suggest that the bargaining power of recipient countries, as measured by the GDP per capita, cannot be used to predict the extent to which World Bank conditionality will be revised for every country. Lastly, equations (1) and (2) were estimated once again using a poisson model and all results are confirmed in terms of sign and significance level, suggesting that these are not subject to the choice of model. They are not shown but are available upon request.

III.5. Conclusions

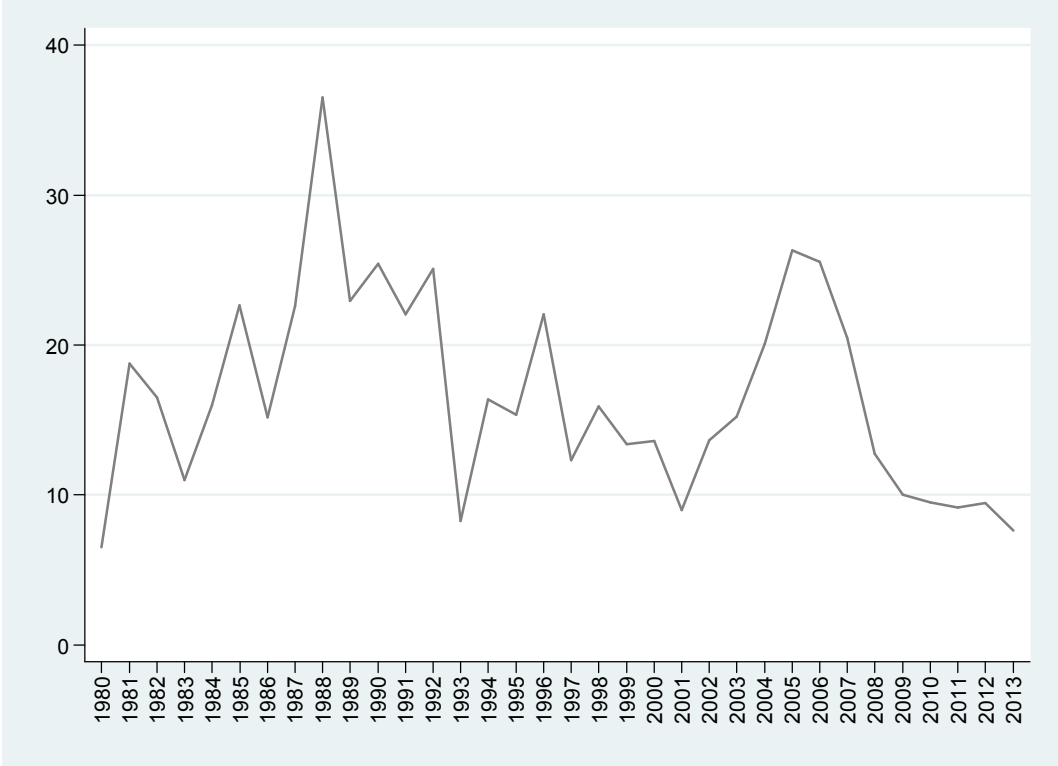
This study measures the impact of aid from a wide range of new and DAC donors on World Bank conditionality by employing panel data techniques on a dataset covering 54 African countries over the 1980-2013 period. This question is founded on the increasing participation of new donors in the funding of development projects and is part of the debate on how the Bretton Woods institutions are adapting their operations to the presence of these new actors. The analysis provides a hint to understand the puzzle of why the World Bank is decreasing its conditionality apparently in contradiction to its own policy advice of channeling aid to recipient countries with good macroeconomic environments to increase its effectiveness.

The empirical results suggest that when an African country is also assisted by China, the World Bank provides fewer conditions attached to its loans. In fact they receive 15 percent fewer conditions for every percentage-point increase in Chinese aid. In the past the World Bank has often resorted to lending with fewer conditions to cope with excesses in the supply of development resources and appears to be responding with the same strategy to the rise of Chinese lending activities in Africa after the turn of the new millennium. Contrary to expectations, this effect is most apparent in low income borrowers which should have a restricted bargaining power at the time of negotiating credits with donors. It is possible that China's focus on low income countries in Africa for development aid activities has allowed them to shift loan negotiations with the World Bank closer to their own interests. A similar effect is observed in middle income borrowers that receive financial assistance from Kuwait and the United Arab Emirates. The World Bank delivers significantly fewer conditions in these cases but the effect is not robust when only the period from 2000-2012 is considered. Although these two donors and the World

Bank engaged in a race to the bottom via conditionality in the past, better coordination between them has most likely prevented it from occurring in recent years. This would not be surprising as, for example, the United Arab Emirates has expressed its interest in joining the DAC and since 2010 has been officially reporting its aid activities to this committee. In contrast, no influence is found from aid allocated by the DAC donors on the number of conditions delivered by the World Bank. Exceptions are aid inflows from France and the United Kingdom after 2000. In both cases conditionality is revised upwards. In these cases World Bank conditionality can be seen as reflecting the potential risks for borrowing countries from receiving additional resources. This effect might be a result of the efforts of DAC donors to harmonize their development financing activities since the Paris Declaration on Aid Effectiveness in 2005.

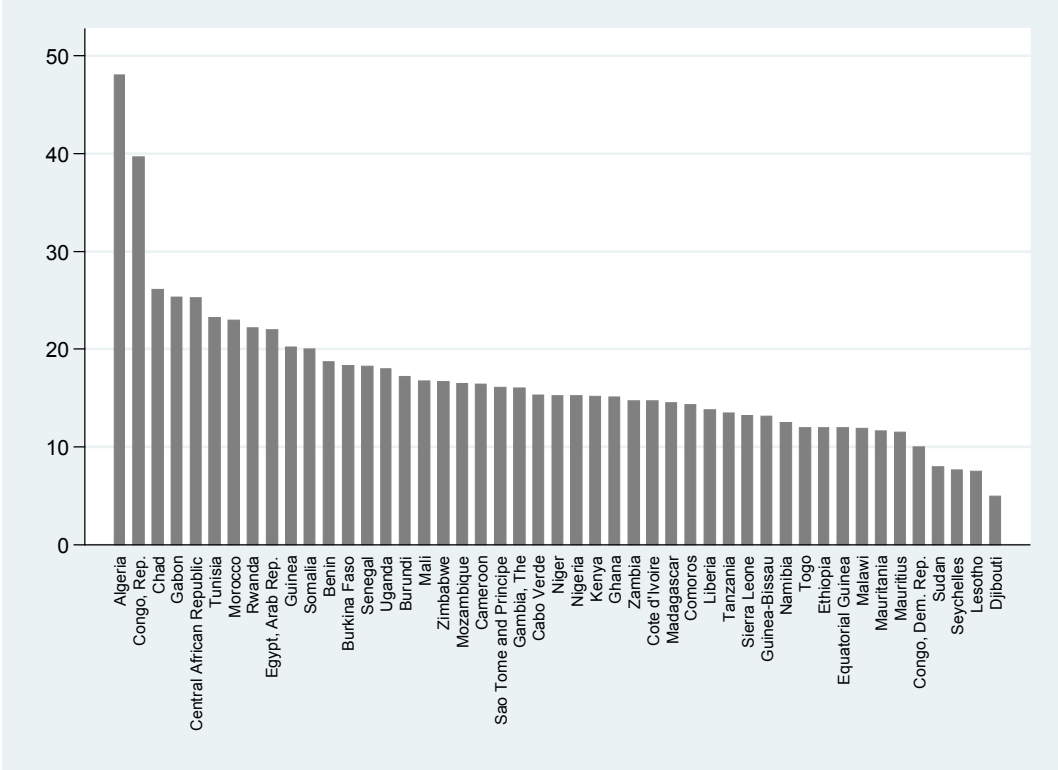
These findings suggest that the World Bank reacts to the presence of new and DAC donors in opposite ways. The difference relies on how new donors and DAC donors approach borrowing governments. While new donors might present counter offers to finance projects already in negotiation with the World Bank, DAC donors are unlikely to do likewise. The World Bank has lessened its conditionality in response to the increasing competition from China so as to maintain the level of its development activities in Africa, as it did in the past with Kuwait and the United Arab Emirates. This behavior suggests that aid in Africa is largely driven by donor interests and that conditionality is inconsistent and has been used to achieve influence. The rise of new donors with divergent interests to those of the DAC might be leading to an aid architecture in which reform is ignored and effectiveness is unnecessary.

Figure III.1: Number of World Bank Conditions per Project in African Countries, Average by Year



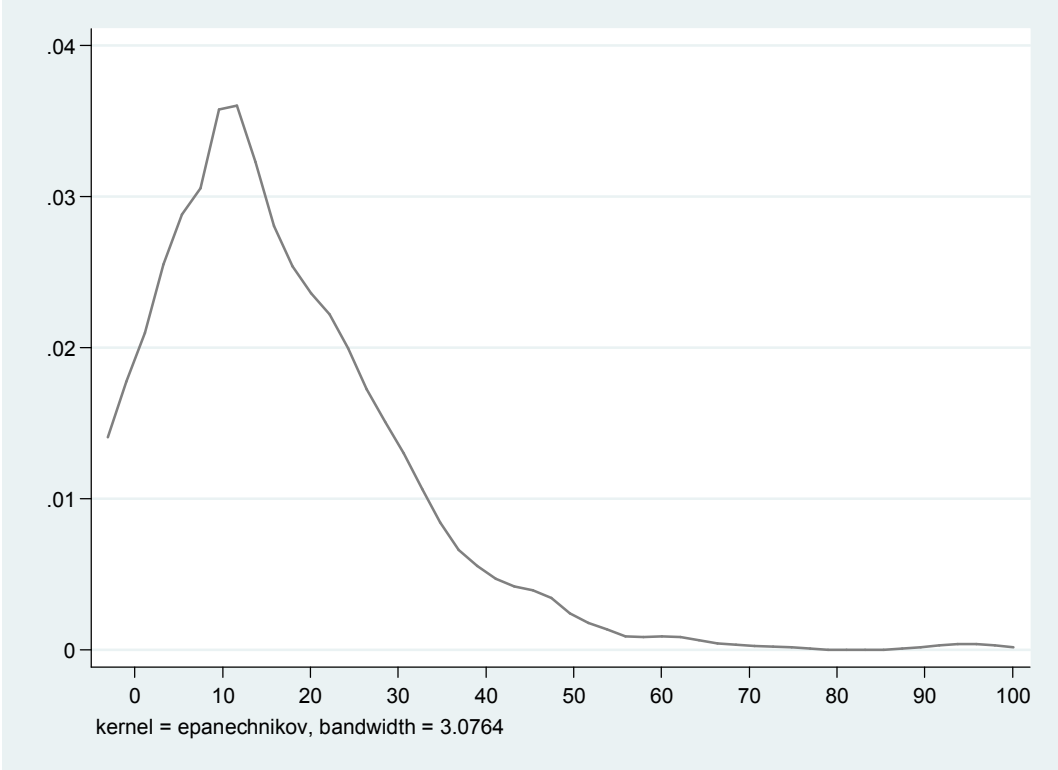
Notes: The figure shows the average number of World Bank conditions delivered per project to recipient countries in Africa each year over the 1980-2013 period. Source: World Bank (2014).

Figure III.2: Number of World Bank Conditions per Project in 1980-2013, Average by Recipient Country



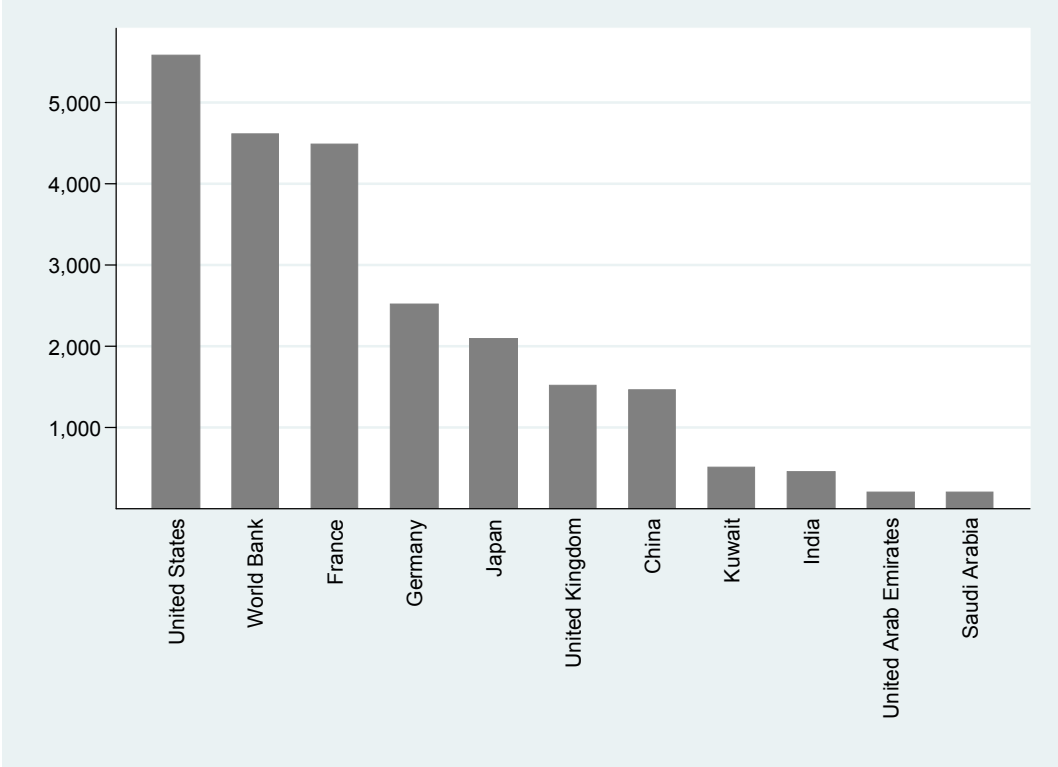
Notes: The figure shows the average number of World Bank conditions delivered per project to each recipient country in Africa over the 1980-2013 period. Source: World Bank (2014).

Figure III.3: Number of World Bank Conditions per Project in African Countries in 1980-2013, Kernel Distribution



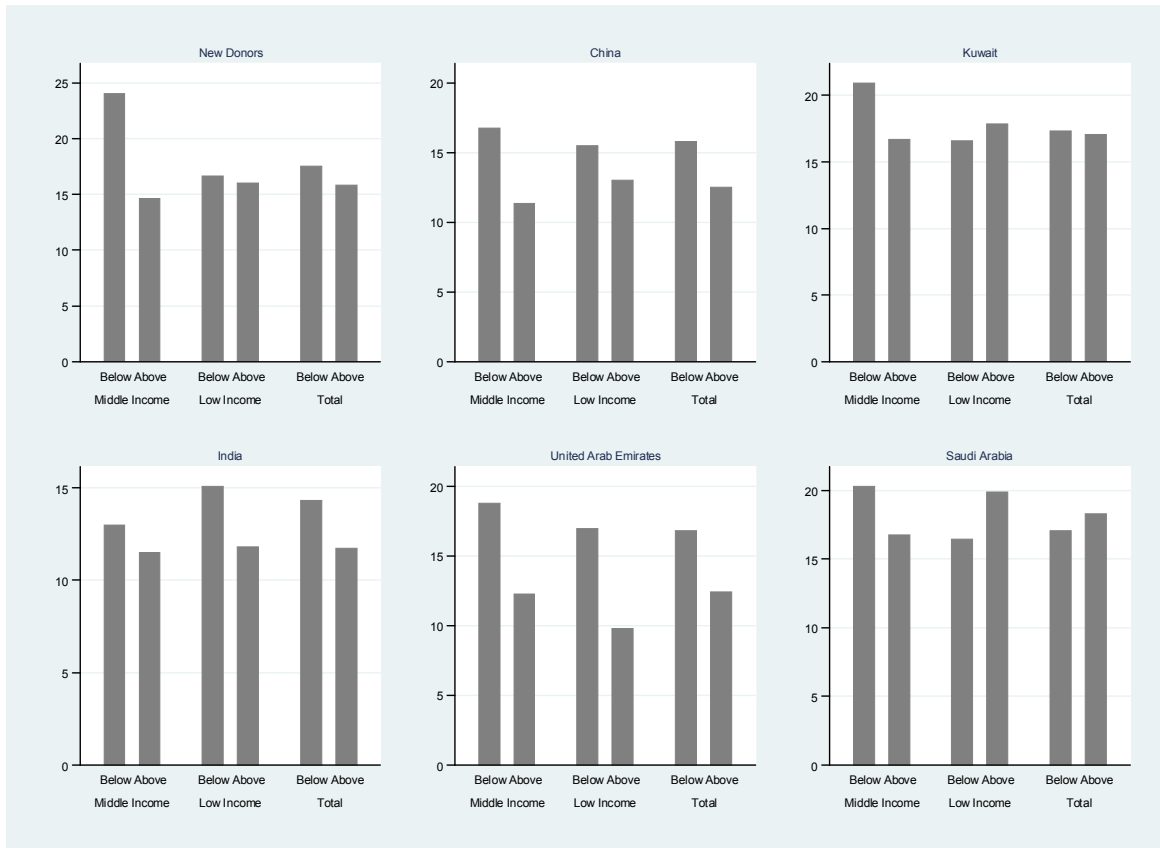
Notes: The figure shows the Kernel distribution for the average number of World Bank conditions delivered per project to recipient countries in Africa over the 1980-2013 period. Source: World Bank (2014).

Figure III.4: Aid Commitments to African Countries in 1980-2012, Average by Donor



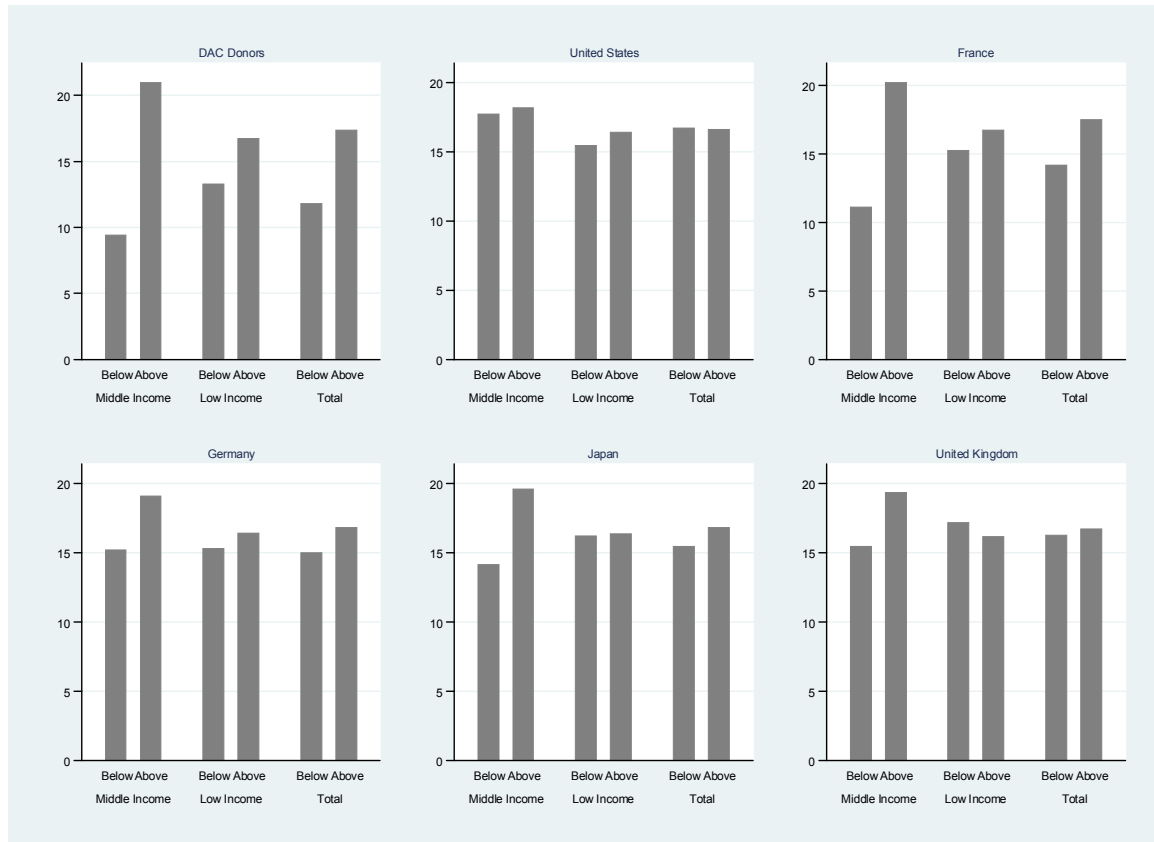
The figure shows the average loan commitments approved by the United States, the World Bank, France, Germany, Japan, the United Kingdom, China, Kuwait, India, the United Arab Emirates and Saudi Arabia to recipient countries in Africa each year over the 1980-2012 period. Figures are given in US constant dollars (base year 2000) and scaled to millions. Source: Tierney et al. (2011), OECD (2014).

Figure III.5a: Number of World Bank Conditions per Project to African Countries in 1980-2013, Average by New Donors' Aid Commitment Levels and Recipient Country Income Category



Notes: The figure shows the average number of World Bank conditions delivered per project to recipient countries in Africa over the 1980-2013 period in relation to new donors' bilateral aid commitments. Each of the small diagrams considers an individual donor. “Below” signals each year in which a recipient country received an amount that is below the donor’s aid allocation average in Africa during that same year. “Above” signals each year in which a recipient country received an amount that is above the aforementioned average. “Middle Income” includes each year in which a recipient country is classified as middle-income by the World Bank. “Low Income” includes each year in which a recipient country is classified as low-income by the World Bank. “Total” includes every year regardless of income. Source: World Bank (2014), Tierney et al. (2011)

Figure III.5b: Number of World Bank Conditions per Project in African Countries in 1980-2013, Average by DAC Aid Commitments Level and Recipient Country Income Category



Notes: The figure shows the average number of World Bank conditions delivered per project to recipient countries in Africa over the 1980-2013 period in relation to DAC donors' bilateral aid commitments. Each of the small diagrams considers an individual donor. "Below" signals each year in which a recipient country received an amount that is below the donor's aid allocation average in Africa during that same year. "Above" signals each year in which a recipient country received an amount that is above the aforementioned average. "Middle Income" includes each year in which a recipient country is classified as middle-income by the World Bank. "Low Income" includes each year in which a recipient country is classified as low-income by the World Bank. "Total" includes every year regardless of income. World Bank (2014), OECD (2014)

Table III.1a: World Bank Conditions and New Donors Aid Commitments, Negative Binominal, 1980-2013

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Av. Fields	1.616*** (0.0000)	1.289** (0.0203)	1.631*** (0.0000)	1.477** (0.0110)	1.613*** (0.0000)	1.641*** (0.0000)	1.018*** (0.0053)	1.822*** (0.0000)	1.517** (0.0182)	1.870*** (0.0000)	1.416** (0.0233)	1.772*** (0.0000)	1.871*** (0.0000)	1.119*** (0.0018)
World Bank Comm. (log)	-0.0520 (0.7516)	-0.378 (0.3012)	-0.0638 (0.7151)	-0.212 (0.6751)	0.0714 (0.6052)	-0.0651 (0.7058)	0.122 (0.6591)	0.0675 (0.6765)	-0.151 (0.6922)	0.0601 (0.7300)	-0.214 (0.6511)	0.191 (0.2009)	0.0596 (0.7325)	0.171 (0.5670)
GDP per Capita t-1 (log)	-4.628 (0.1045)	-15.87** (0.0209)	-3.670 (0.2395)	10.81 (0.5303)	-1.808 (0.5453)	-3.495 (0.2611)	-13.28* (0.0828)							
GDP Growth t-1	0.0875 (0.4437)	-0.0809 (0.7351)	0.0862 (0.4913)	0.144 (0.6764)	0.181 (0.2187)	0.0870 (0.4775)	0.290 (0.4556)							
CPI Growth t-1	-4.213 (0.4749)	-32.97*** (0.0011)	-4.551 (0.4515)	-36.37* (0.0804)	-7.533 (0.2372)	-4.466 (0.4640)	-28.62 (0.1125)							
Gov. Expenditures t-1	-0.196 (0.1866)	0.147 (0.4629)	-0.268 (0.1097)	-0.317 (0.1816)	-0.158 (0.3750)	-0.270 (0.1063)	0.0431 (0.8778)							
Int. Reserves t-1	0.0183* (0.0835)	-0.0159 (0.4610)	0.0198* (0.0581)	0.0239 (0.1673)	0.0223** (0.0268)	0.0194* (0.0654)	-0.0518 (0.1223)							
Investments t-1	0.159** (0.0420)	0.0427 (0.7973)	0.174** (0.0479)	-0.144 (0.6258)	0.130* (0.0796)	0.170* (0.0512)	-0.0266 (0.8631)							
Extern Debt t-1	0.0334*** (0.0001)	0.0253*** (0.0002)	0.0494*** (0.0029)	0.0495*** (0.0000)	0.0367*** (0.0000)	0.0499*** (0.0035)	0.0516*** (0.0001)	0.0285*** (0.0017)	0.0237*** (0.0000)	0.0384*** (0.0086)	0.0442*** (0.0000)	0.0299*** (0.0001)	0.0385** (0.0100)	0.0535*** (0.0000)
UN Voting Aff. US t-1	-5.634 (0.7247)	-27.79*** (0.0021)	-4.068 (0.8156)	-2.205 (0.9279)	-11.81 (0.4664)	-4.126 (0.8122)	-4.366 (0.8177)							
Democracy Index t-1	0.0719 (0.7194)	1.411*** (0.0078)	0.0854 (0.6861)	2.042* (0.0837)	-0.0637 (0.7821)	0.0914 (0.6637)	1.130* (0.0514)							
New Donors Comm. t-1 (log)	-0.0493 (0.5692)							-0.0576 (0.4209)						
China Comm. t-1 (log)		-0.153** (0.0223)					-0.150* (0.0732)		-0.101 (0.2012)					-0.157** (0.0257)
Kuwait Comm. t-1 (log)			-0.0211 (0.8208)				0.212* (0.0882)			-0.00382 (0.9665)				0.199* (0.0558)
India Comm. t-1 (log)				-0.0902 (0.3487)							-0.0506 (0.5500)			
Uni. Arab Emi. Comm. t-1 (log)					-0.196 (0.1124)		0.0390 (0.6717)					-0.156 (0.1006)		-0.0760 (0.6033)
Saudi Arabia Comm. t-1 (log)						0.0230 (0.7772)	-0.00653 (0.9489)						0.00551 (0.9470)	0.0223 (0.8197)
Observations	336	126	319	108	223	319	87	394	140	374	120	263	374	97
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: The dependent variable is the average number of World Bank conditions per project delivered to recipient country i in period t , rounded to the closest integer. Marginal effects at the mean value of the variable are reported. Standard errors are clustered by recipient country i . P-values are shown in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table III.1b: World Bank Conditions and DAC Aid Commitments, Negative Binominal, 1980-2013

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Av. Fields	1.559*** (0.0000)	1.602*** (0.0000)	1.608*** (0.0000)	1.601*** (0.0000)	1.609*** (0.0000)	1.548*** (0.0000)	1.570*** (0.0000)	1.767*** (0.0000)	1.799*** (0.0000)	1.803*** (0.0000)	1.794*** (0.0000)	1.803*** (0.0000)	1.771*** (0.0000)	1.763*** (0.0000)
World Bank Comm. (log)	-0.0914 (0.5730)	-0.0603 (0.7476)	-0.0577 (0.7308)	-0.0612 (0.7125)	-0.0697 (0.6733)	-0.0443 (0.7934)	-0.0376 (0.8483)	0.0362 (0.8161)	0.0200 (0.9026)	0.0625 (0.7061)	0.0560 (0.7324)	0.0585 (0.7213)	0.0616 (0.7089)	0.0299 (0.8593)
GDP per Capita t-1 (log)	-4.368 (0.1594)	-4.565 (0.1348)	-4.619 (0.1228)	-4.595 (0.1277)	-4.648 (0.1190)	-4.384 (0.1406)	-4.736 (0.1405)							
GDP Growth t-1	0.0696 (0.5390)	0.0886 (0.4758)	0.0959 (0.3975)	0.0877 (0.4422)	0.0865 (0.4394)	0.0727 (0.5358)	0.0851 (0.5006)							
CPI Growth t-1	-2.768 (0.6379)	-3.792 (0.5249)	-3.148 (0.5971)	-3.812 (0.5218)	-3.582 (0.5419)	-3.543 (0.5424)	-3.112 (0.5984)							
Gov. Expenditures t-1	-0.220 (0.1506)	-0.203 (0.1884)	-0.195 (0.2106)	-0.203 (0.1817)	-0.199 (0.2026)	-0.199 (0.1815)	-0.185 (0.2369)							
Int. Reserves t-1	0.0168* (0.0845)	0.0188** (0.0434)	0.0182* (0.0812)	0.0187* (0.0611)	0.0197* (0.0613)	0.0195** (0.0374)	0.0212** (0.0251)							
Investments t-1	0.147* (0.0665)	0.157** (0.0392)	0.152** (0.0499)	0.156** (0.0407)	0.150* (0.0510)	0.174** (0.0326)	0.164** (0.0395)							
Extern Debt t-1	0.0336*** (0.0004)	0.0341*** (0.0001)	0.0346*** (0.0002)	0.0341*** (0.0002)	0.0347*** (0.0001)	0.0342*** (0.0003)	0.0358*** (0.0001)	0.0292*** (0.0026)	0.0302*** (0.0011)	0.0302*** (0.0020)	0.0296*** (0.0019)	0.0293*** (0.0016)	0.0294*** (0.0023)	0.0313*** (0.0009)
UN Voting Aff. US t-1	-7.939 (0.6134)	-6.794 (0.6480)	-7.067 (0.6463)	-6.883 (0.6542)	-6.592 (0.6643)	-7.021 (0.6409)	-6.135 (0.6830)							
Democracy Index t-1	0.0503 (0.8098)	0.0782 (0.6642)	0.0771 (0.7132)	0.0752 (0.7175)	0.0849 (0.6680)	0.0511 (0.7952)	0.0810 (0.6584)							
DAC Comm. t-1 (log)	1.271 (0.2319)							1.098 (0.2456)						
United States Comm. t-1 (log)		8.39e-05 (0.9999)					-0.207 (0.7738)		0.431 (0.2586)					0.357 (0.3583)
France Comm. t-1 (log)			0.439 (0.3153)				0.395 (0.3643)			0.378 (0.3720)				0.326 (0.4448)
Germany Comm. t-1 (log)				0.0858 (0.8742)			-0.173 (0.7445)				0.232 (0.4782)			0.192 (0.6791)
Japan Comm. t-1 (log)					0.248 (0.5028)		0.322 (0.3442)					-0.0227 (0.9364)		0.0182 (0.9483)
United Kingdom Comm. t-1 (log)						0.204* (0.0836)	0.222* (0.0517)						0.149 (0.1568)	0.117 (0.2255)
Observations	336	336	336	336	336	334	334	394	393	394	394	394	392	391
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: The dependent variable is the average number of World Bank conditions per project delivered to recipient country i in period t , rounded to the closest integer. Marginal effects at the mean value of the variable are reported. Standard errors are clustered by recipient country i . P-values are shown in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table III.2a: World Bank Conditions and New Donors Aid Commitments, Negative Binominal, 2000-2013

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Av. Fields	1.410*** (0.0001)	1.289** (0.0203)	1.532*** (0.0000)	1.477** (0.0110)	1.324*** (0.0000)	1.415*** (0.0000)	1.018*** (0.0053)	1.509*** (0.0000)	1.517** (0.0182)	1.637*** (0.0000)	1.416** (0.0233)	1.336*** (0.0000)	1.548*** (0.0000)	1.119*** (0.0018)
World Bank Comm. (log)	-0.100 (0.7764)	-0.378 (0.3012)	-0.0818 (0.8327)	-0.212 (0.6751)	0.140 (0.6278)	-0.0777 (0.8445)	0.122 (0.6591)	0.160 (0.6394)	-0.151 (0.6922)	0.135 (0.6988)	-0.214 (0.6511)	0.245 (0.4168)	0.262 (0.4722)	0.171 (0.5670)
GDP per Capita t-1 (log)	-17.79** (0.0100)	-15.87** (0.0209)	-15.14** (0.0346)	10.81 (0.5303)	-17.93*** (0.0039)	-15.99** (0.0215)	-13.28* (0.0828)							
GDP Growth t-1	0.350*** (0.0016)	-0.0809 (0.7351)	0.359*** (0.0029)	0.144 (0.6764)	0.397*** (0.0001)	0.319** (0.0307)	0.290 (0.4556)							
CPI Growth t-1	-0.976 (0.9062)	-32.97*** (0.0011)	-3.305 (0.6972)	-36.37* (0.0804)	-3.896 (0.6117)	-4.426 (0.6103)	-28.62 (0.1125)							
Gov. Expenditures t-1	0.00568 (0.9762)	0.147 (0.4629)	0.0322 (0.8897)	-0.317 (0.1816)	-0.0320 (0.8802)	0.00351 (0.9880)	0.0431 (0.8778)							
Int. Reserves t-1	0.0104 (0.4176)	-0.0159 (0.4610)	0.00438 (0.8168)	0.0239 (0.1673)	0.00874 (0.5049)	0.00658 (0.7029)	-0.0518 (0.1223)							
Investments t-1	-0.0202 (0.7872)	0.0427 (0.7973)	-0.0408 (0.6386)	-0.144 (0.6258)	-0.00465 (0.9450)	-0.0466 (0.5710)	-0.0266 (0.8631)							
Extern Debt t-1	0.0311*** (0.0000)	0.0253*** (0.0002)	0.0616*** (0.0000)	0.0495*** (0.0000)	0.0304*** (0.0000)	0.0615*** (0.0000)	0.0516*** (0.0001)	0.0262*** (0.0000)	0.0237*** (0.0000)	0.0413*** (0.0023)	0.0442*** (0.0000)	0.0317*** (0.0000)	0.0408*** (0.0024)	0.0535*** (0.0000)
UN Voting Aff. US t-1	-21.03** (0.0422)	-27.79*** (0.0021)	-18.78* (0.0844)	-2.205 (0.9279)	-14.12 (0.2655)	-18.13 (0.1013)	-4.366 (0.8177)							
Democracy Index t-1	0.198 (0.7799)	1.411*** (0.0078)	0.293 (0.7267)	2.042* (0.0837)	0.421 (0.4776)	0.412 (0.6178)	1.130* (0.0514)							
New Donors Comm. t-1 (log)	0.0258 (0.8116)							0.0341 (0.6967)						
China Comm. t-1 (log)		-0.153** (0.0223)					-0.150* (0.0732)		-0.101 (0.2012)					-0.157** (0.0257)
Kuwait Comm. t-1 (log)			0.118 (0.2872)				0.212* (0.0882)			0.153* (0.0943)				0.199* (0.0558)
India Comm. t-1 (log)				-0.0902 (0.3487)							-0.0506 (0.5500)			
Uni. Arab Emi. Comm. t-1 (log)					-0.0966 (0.4161)		0.0390 (0.6717)					-0.0669 (0.5192)		-0.0760 (0.6033)
Saudi Arabia Comm. t-1 (log)						0.121 (0.1601)	-0.00653 (0.9489)						0.0988 (0.1985)	0.0223 (0.8197)
Observations	183	126	166	108	146	166	87	209	140	189	120	168	189	97
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

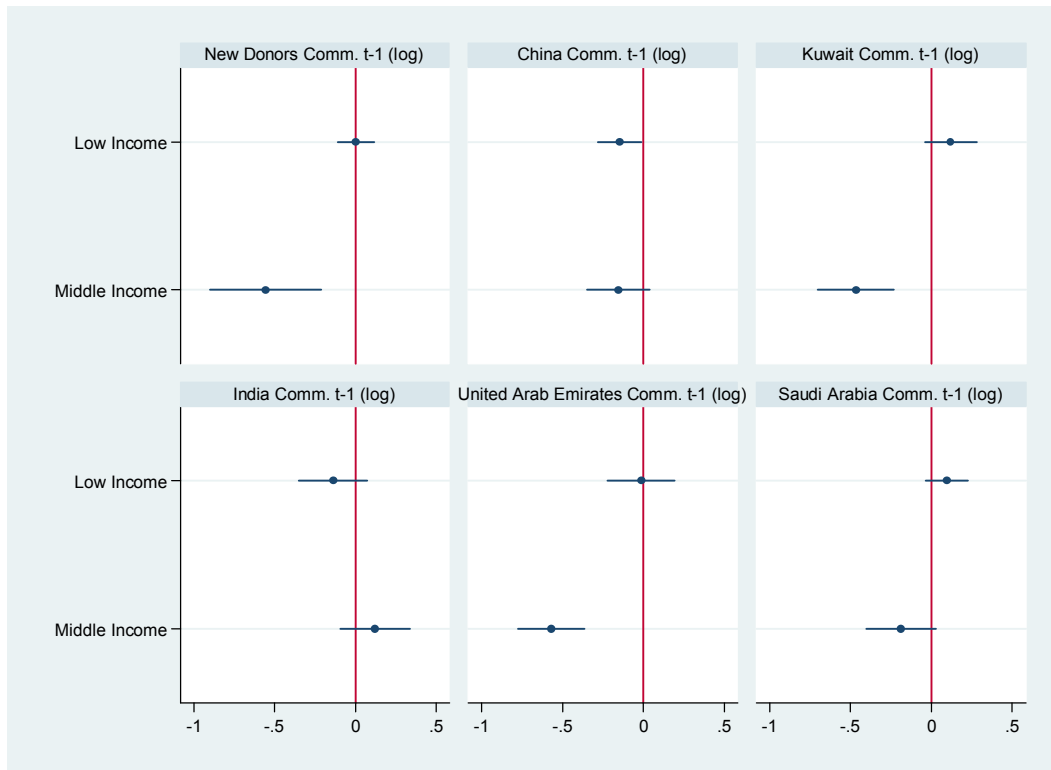
Notes: The dependent variable is the average number of World Bank conditions per project delivered to recipient country i in period t , rounded to the closest integer. Marginal effects at the mean value of the variable are reported. Standard errors are clustered by recipient country i . P-values are shown in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table III.2b: World Bank Conditions and DAC Aid Commitments, Negative Binominal, 2000-2013

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Av. Fields	1.373*** (0.0001)	1.430*** (0.0000)	1.420*** (0.0000)	1.382*** (0.0000)	1.395*** (0.0001)	1.311*** (0.0003)	1.318*** (0.0000)	1.483*** (0.0000)	1.512*** (0.0000)	1.487*** (0.0000)	1.497*** (0.0000)	1.498*** (0.0000)	1.453*** (0.0000)	1.436*** (0.0000)
World Bank Comm. (log)	-0.0673 (0.8529)	-0.145 (0.6922)	-0.0730 (0.8284)	-0.125 (0.7287)	-0.132 (0.7202)	-0.0479 (0.8986)	-0.110 (0.7733)	0.196 (0.5712)	0.162 (0.6300)	0.208 (0.5314)	0.161 (0.6350)	0.164 (0.6436)	0.244 (0.4750)	0.305 (0.3682)
GDP per Capita t-1 (log)	-18.25*** (0.0036)	-17.62*** (0.0074)	-13.95** (0.0210)	-18.12*** (0.0049)	-18.17*** (0.0046)	-17.49*** (0.0062)	-11.86* (0.0702)							
GDP Growth t-1	0.353*** (0.0031)	0.357*** (0.0021)	0.315*** (0.0100)	0.348*** (0.0043)	0.342*** (0.0061)	0.327*** (0.0071)	0.309** (0.0174)							
CPI Growth t-1	0.209 (0.9810)	-1.584 (0.8349)	1.340 (0.8777)	-1.456 (0.8498)	-1.703 (0.8257)	-1.336 (0.8602)	1.502 (0.8298)							
Gov. Expenditures t-1	0.0404 (0.8383)	-0.0130 (0.9489)	0.0152 (0.9338)	0.00168 (0.9931)	0.00857 (0.9655)	0.0775 (0.6876)	0.0359 (0.8440)							
Int. Reserves t-1	0.00585 (0.6768)	0.00924 (0.4813)	0.00491 (0.7387)	0.00886 (0.4961)	0.00887 (0.4843)	0.0116 (0.3518)	0.00731 (0.6159)							
Investments t-1	-0.0314 (0.6803)	-0.0226 (0.7622)	-0.0377 (0.6237)	-0.0104 (0.8881)	-0.0160 (0.8252)	-0.00592 (0.9387)	-0.0100 (0.8940)							
Extern Debt t-1	0.0312*** (0.0000)	0.0304*** (0.0000)	0.0328*** (0.0000)	0.0304*** (0.0000)	0.0303*** (0.0000)	0.0331*** (0.0000)	0.0342*** (0.0000)	0.0268*** (0.0000)	0.0267*** (0.0000)	0.0283*** (0.0000)	0.0260*** (0.0000)	0.0261*** (0.0000)	0.0266*** (0.0000)	0.0286*** (0.0000)
UN Voting Aff. US t-1	-21.09** (0.0374)	-18.78* (0.0517)	-18.01* (0.0662)	-21.33** (0.0313)	-21.05** (0.0387)	-20.96** (0.0330)	-15.70* (0.0559)							
Democracy Index t-1	0.169 (0.8074)	0.114 (0.8749)	0.0936 (0.8916)	0.205 (0.7720)	0.224 (0.7510)	0.168 (0.8095)	-0.0495 (0.9422)							
DAC Comm. t-1 (log)	1.172 (0.2327)							0.899 (0.3236)						
United States Comm. t-1 (log)		-0.640 (0.4846)					-1.089 (0.1941)		0.135 (0.7982)					0.00359 (0.9953)
France Comm. t-1 (log)			1.121* (0.0569)				1.159* (0.0575)			1.002* (0.0811)				1.017* (0.0703)
Germany Comm. t-1 (log)				-0.260 (0.5845)			-0.613 (0.1622)				-0.0716 (0.8073)			-0.416 (0.3948)
Japan Comm. t-1 (log)					-0.0952 (0.7866)		-0.0726 (0.8367)					0.00632 (0.9825)		0.129 (0.6515)
United Kingdom Comm. t-1 (log)						0.163* (0.0614)	0.190** (0.0230)						0.200** (0.0115)	0.207*** (0.0059)
Observations	183	183	183	183	183	181	181	209	208	209	209	209	207	206
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

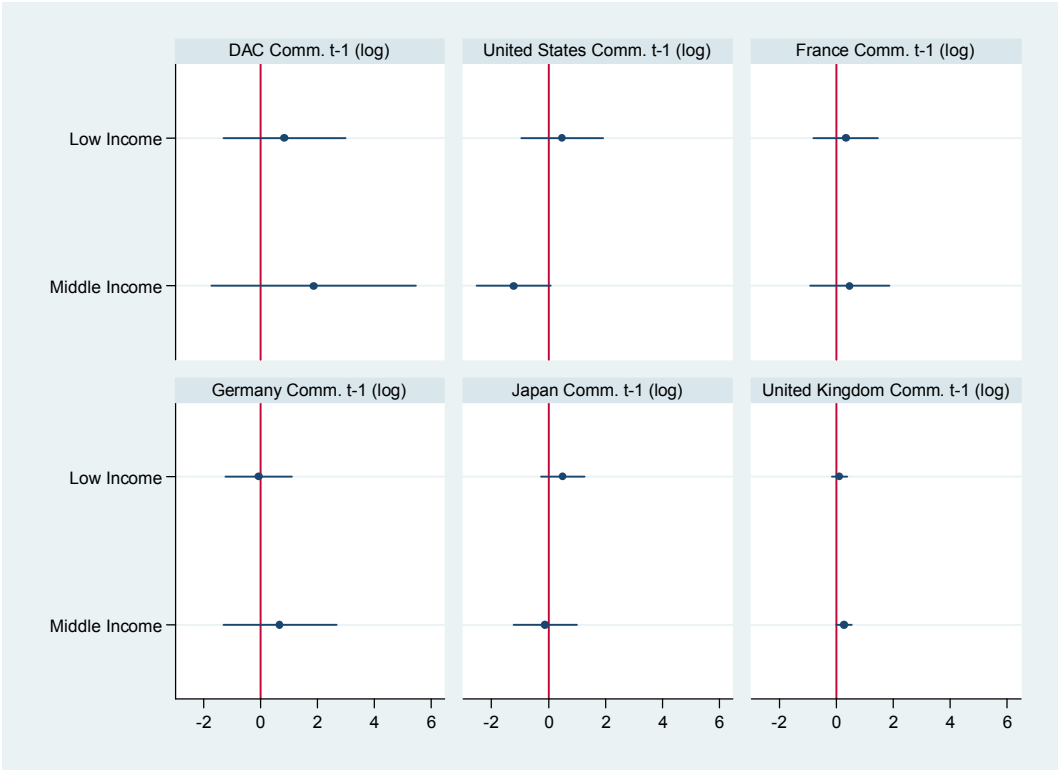
Notes: The dependent variable is the average number of World Bank conditions per project delivered to recipient country i in period t , rounded to the closest integer. Marginal effects at the mean value of the variable are reported. Standard errors are clustered by recipient country i . P-values are shown in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Figure III.6a: World Bank Conditions and New Donors Aid Commitments by Recipient Country Income Category, Negative Binominal, 1980-2013



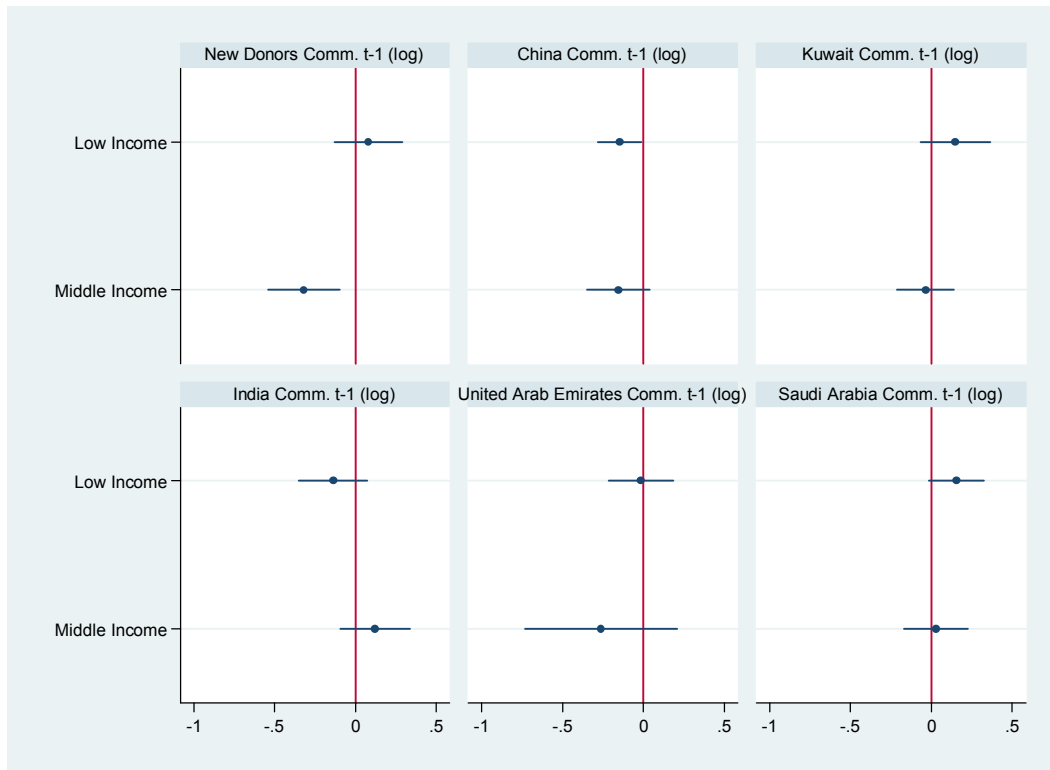
Notes: The figure shows the marginal effect of aid commitments from new donor j on the average number of World Bank conditions delivered. Each figure considers the marginal effect of new donor j for low- and middle-income recipient countries separately. The blue lines highlight the 90 percent confidence interval of the marginal effect, and the red lines the zero boundary. New Donors Comm. refers to aid commitments from China, Kuwait, India, the United Arab Emirates and Saudi Arabia. Although not shown, regressions include all variables in equation (2).

Figure III.6b: World Bank Conditions and DAC Aid Commitments by Recipient Country Income Category, Negative Binomial, 1980-2013



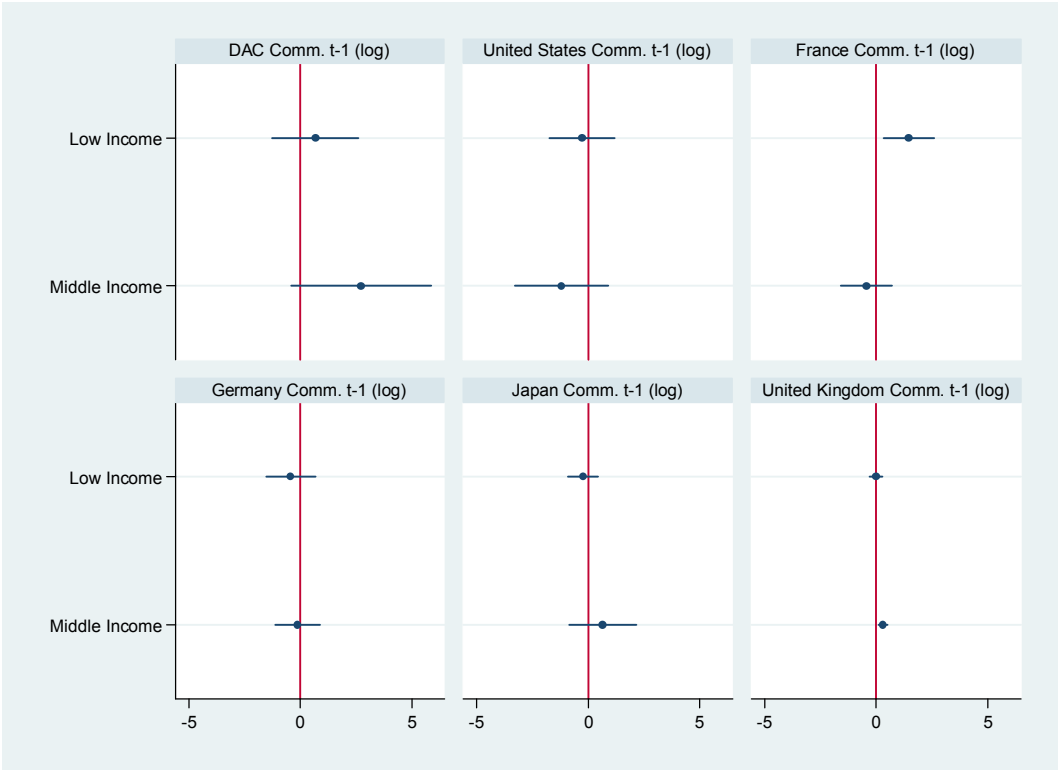
Notes: The figure shows the marginal effect of aid commitments from DAC donor j on the average number of World Bank conditions delivered. Each figure considers the marginal effect of DAC donor j for low- and middle-income recipient countries separately. DAC Comm. refers to aid commitments from all 29 DAC donors. The blue lines highlight the 90 percent confidence interval of the marginal effect, and the red lines the zero boundary. Although not shown, regressions include all variables in equation (2).

Figure 7a: World Bank Conditions and New Donor Aid Commitments by Recipient Country Income Category, Negative Binomial, 2000-2013



Notes: The figure shows the marginal effect of aid commitments from new donor j on the average number of World Bank conditions delivered. Each figure considers the marginal effect of aid commitments from new donor j for low- and middle-income recipient countries separately. The blue lines highlight the 90 percent confidence interval of the marginal effect, and the red lines the zero boundary. New Donors Comm. refers to aid commitments from China, Kuwait, India, the United Arab Emirates and Saudi Arabia. Although not shown, regressions include all variables in equation (2).

Figure 7b: World Bank Conditions and DAC Aid Commitments by Recipient Country Income Category, Negative Binominal, 2000-2013



Notes: The figure shows the marginal effect of aid commitments from DAC donor j on the average number of World Bank conditions delivered. Each figure considers the marginal effect of aid commitments from DAC donor j for low- and middle-income recipient countries separately. DAC Comm. refers to aid commitments from all 29 DAC donors. The blue lines highlight the 90 percent confidence interval of the marginal effect, and the red lines the zero boundary. Although not shown, regressions include all variables in equation (2).

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Appendix

Appendix I.1: List of Countries in Study

Afghanistan	Egypt	Malaysia	Sierra Leone
Albania	Gabon	Maldives	Somalia
Algeria	Gambia	Mali	Sudan
Azerbaijan	Guinea	Mauritania	Suriname
Bahrain	Guinea-Bissau	Morocco	Syria
Bangladesh	Indonesia	Mozambique	Tajikistan
Benin	Iran	Niger	Togo
Brunei	Iraq	Nigeria	Tunisia
Burkina Faso	Jordan	Oman	Turkey
Cameroon	Kazakhstan	Pakistan	Turkmenistan
Chad	Kuwait	Palestinian Adm. Areas	Uganda
Comoros	Kyrgyz Republic	Qatar	United Arab Emirates
Cote d'Ivoire	Lebanon	Saudi Arabia	Uzbekistan
Djibouti	Lybia	Senegal	Yemen

Notes: Countries shown in bold are Muslim majority populated.

Appendix I.2: Variable Definitions and Sources

Variables	Description	Source
IsDB commitments (log)	IsDB loan commitments received by a borrowing member in a year in constant dollars.	IsDB Annual Report (various years), OECD (2012).
WB commitments (log)	World Bank loan commitments received by a borrowing member in a year in constant dollars.	OECD (2012).
Population (log)	Total population.	World Bank (2012a).
GDP per capita (log)	GDP per capita in current dollars.	World Bank (2012a).
Democracy (dummy)	Dummy coded 1 if government is democratic, and 0 otherwise.	Cheibub et al. (2010).
Civil war (dummy)	Dummy coded 1 if recipient undergoes a civil war in a year, and 0 otherwise.	Gleditsch et al. (2002).
Saudi Arabia aid (log)	Saudi Arabia bilateral aid received by a borrowing member in a year in constant dollars.	OECD (2012).
Trade to GDP	Sum of merchandise exports and imports in percentage of GDP.	World Bank (2012a).
Oil production (log)	Value of oil production in constant dollars.	De Soysa and Binningsbo (2012)
Int. Reserves to GDP	International reserves as a percentage of total GDP.	World Bank (2012a).
Debt crisis (dummy)	Dummy coded 1 if recipient undergoes a debt crisis, and 0 otherwise.	Laeven and Valencia (2012).
Sunni population (dummy)	Dummy coded 1 if religious affiliation of at least 50 percent of the population is Sunni Islam, and 0 otherwise.	Pew Research Center (2009a, 2000b).
Shia population (dummy)	Dummy coded 1 if religious affiliation of at least 50 percent of the population is Shia Islam, and 0 otherwise.	Pew Research Center (2009a, 2009b).
Other population (dummy)	Dummy coded 1 if religious affiliation of at least 50 percent of the population is not Islam (any sect), and 0 otherwise.	Pew Research Center (2009a, 2009b).
Sunni regime (dummy)	Dummy coded 1 if religious affiliation of borrowing member government in a year is Sunni Islam, and 0 otherwise.	CIA World Fact Book (2013), Encyclopedia Britannica (2012).
Shia regime (dummy)	Dummy coded 1 if religious affiliation of borrowing member government in a year is Shia Islam, and 0 otherwise.	CIA World Fact Book (2013), Encyclopedia Britannica (2012).
Other regime (dummy)	Dummy coded 1 if religious affiliation of borrowing member government in a year is not Islam (any sect), and 0 otherwise.	CIA World Fact Book (2013), Encyclopedia Britannica (2012).
Religious Tensions	Religious Tensions Index, from 0 (highest) to 6 (lowest).	International Country Risk Guide (2012).

Appendix I.3: Summary Statistics

Variables	Obs.	Mean	Std. Dv.	Min	Max
IsDB commitments (log)	346	15.25	1.48	6.11	17.58
WB commitments (log)	448	10.56	8.25	0.00	21.68
Population (log)	427	15.65	1.64	11.89	19.24
GDP per capita (log)	398	6.95	1.40	4.68	10.93
Democracy (dummy)	420	0.13	0.32	0.00	1.00
Civil war (dummy)	420	0.24	0.38	0.00	1.00
Saudi Arabia aid (log)	448	2.82	4.39	0.00	19.25
Trade to GDP	383	58.37	31.38	10.40	213.19
Oil production (log)	429	12.98	10.35	0.00	25.86
Int. Reserves to GDP	363	13.84	14.96	0.09	141.46
Debt crisis (dummy)	417	0.01	0.06	0.00	0.25
Sunni populous (dummy)	430	0.71	0.45	0.00	1.00
Shia populous (dummy)	430	0.09	0.28	0.00	1.00
Other populous (dummy)	430	0.20	0.40	0.00	1.00
Sunni regime (dummy)	430	0.72	0.45	0.00	1.00
Shia regime (dummy)	430	0.09	0.28	0.00	1.00
Other regime (dummy)	430	0.19	0.39	0.00	1.00
Religious Tensions	257	3.52	1.41	0.00	6.00

Appendix II.1: Variable Definitions and Sources

Variable	Description	Source
IDB comm (log)	IDB loan commitments received by a borrowing member in a year in constant dollars.	IDB Annual Report (various years), OECD (2012)
Population (log)	Total population.	World Bank (2012a)
GDP cap. (log)	GDP per capita in constant dollars.	World Bank (2012a)
Pol. & civil rights	Average of political rights and civil liberties indices, from 1 (strongly democratic) to 6 (strongly autocratic).	Freedom House (2012)
CPI growth	Inflation rate as measured by the CPI, transformed by $x/(100+x)$	World Bank (2012a)
Gov. exp. / GDP	Government expenditures in percentage of GDP.	World Bank (2012a)
Current acc. /GDP	Sum of net exports of goods, services, net income, and net current transfers in percentage of GDP.	World Bank (2012a)
GDP cap. growth	Growth rate of GDP per capita.	World Bank (2012a)
Investments / GDP	Investment share in percentage of GDP per capita.	Heston et al. (2006)
Int. res. / GDP	International reserves as a percentage of total GDP.	World Bank (2012a)
Int. res. ch / GDP	Change in international reserves as a percentage of total GDP.	World Bank (2012a)
Elections	Dummy coded 1 if elections (either presidential or parliamentary) were held in the year, and 0 otherwise.	Beck et al. (2001)
Checks t-1 (log)	Number of checks and balances.	Beck et al. (2001)
US exports (log)	US exports to a borrowing member in a year in constant dollars.	UN Comtrade (2012)
US UNGA votes	Voting compliance mean with the US in the UNGA by a borrowing member in a year, from 0 (no compliance) to 1 (full compliance).	Strezhnev and Voeten (2012)
US aid (log)	US bilateral aid received by a borrowing member in a year in constant dollars.	OECD (2012)
UNSC memb.	Dummy coded 1 if a borrowing member is a non-permanent member of the UNSC in a year, and 0 otherwise.	Dreher et al. (2009b)
Exports average (log)	Average of US, Argentina, Brazil and Mexico exports to a borrowing member in a year in constant dollars.	UN Comtrade (2012)
Exports coeff. var.	Coefficient of variation of major shareholder exports average, from 0 (full homogeneity) to 100 (full heterogeneity).	UN Comtrade (2012)
UNGA votes average	Average of voting compliance mean with the US, Argentina, Brazil and Mexico in the UNGA by a borrowing member in a year, from 0 (no compliance) to 1 (full compliance).	Strezhnev and Voeten (2012)
UNGA votes coeff. var.	Coefficient of variation of major shareholder UNGA voting affinity average, from 0 (full homogeneity) to 100 (full heterogeneity).	Strezhnev and Voeten (2012)

Appendix II.2: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
IDB comm (log)	943	16.66	5.33	0.00	22.35
Population (log)	1,066	15.34	1.70	11.70	19.09
GDP cap. (log)	1,044	7.55	0.94	5.48	10.00
Pol. & civil rights	949	2.96	1.47	1.00	7.00
CPI growth	1,036	0.15	0.19	-0.33	0.99
Gov. exp. / GDP	988	13.35	5.49	2.98	43.48
Current acc. /GDP	888	-3.86	7.90	-42.89	53.23
GDP cap. growth	1,036	1.41	4.62	-28.61	23.37
Investments / GDP	1,040	22.67	9.78	-9.09	86.33
Int. res. / GDP	1,035	11.15	8.37	0.77	55.95
Int. res. ch / GDP	897	-0.01	0.04	-0.19	0.29
Elections	902	0.20	0.40	0.00	1.00
Checks t-1 (log)	900	1.27	0.41	0.00	2.08
US exports (log)	988	13.72	1.44	7.83	18.42
US UNGA votes	995	0.28	0.12	0.05	0.66
US aid (log)	988	14.36	6.23	0.00	20.87
UNSC memb.	1,047	0.08	0.27	0.00	1.00
Exports average (log)	981	12.03	2.03	4.94	16.80
Exports coeff. var.	981	15.54	8.74	1.78	78.45
UNGA votes average	992	0.75	0.03	0.62	0.83
UNGA votes coeff. var.	992	36.49	9.10	6.05	53.61

Appendix III.1: Variable Definitions and Sources

Variables	Description	Source
Av. Conditions	Average number of World Bank conditions per project delivered to a recipient country in a year.	World Bank (2014).
Av. Fields	Average number of fields covered per project delivered to a recipient country in a year.	World Bank (2014).
World Bank Comm. (log)	World Bank loan commitments received by a recipient country in a year in constant dollars.	OECD (2014)
GDP per Capita (log)	GDP per capita in current dollars.	World Bank (2012a)
GDP Growth	Growth rate of GDP per capita.	World Bank (2012a)
CPI Growth	Inflation rate as measured by the CPI, transformed by $x/(100+x)$	World Bank (2012a)
Gov. Expenditures	Government expenditures as a percentage of GDP.	World Bank (2012a)
Int. Reserves	International reserves as a percentage of total GDP.	World Bank (2012a)
Investments	Investment share as a percentage of GDP per capita.	Heston et al. (2006)
Extern Debt	External debt as a percentage of GDP.	World Bank (2012a)
UN Voting Aff. US	Voting compliance mean with the US in the UNGA by a recipient country in a year, from 0 (no compliance) to 1 (full compliance).	Strezhnev and Voeten (2012)
Democracy Index	Democracy index, from -10 (full autocracy) to 10 (full democracy).	Marshall and Jaggers (2000)
New Donors Comm (log)	Aid loan commitments by China, Kuwait, India, United Arab Emirates and Saudi Arabia altogether received by a recipient country in a year in constant dollars.	Tierney et al. (2011)
China Comm (log)	China loan commitments received by a recipient country in a year in constant dollars.	Tierney et al. (2011)
Kuwait Comm (log)	Kuwait loan commitments received by a recipient country in a year in constant dollars.	Tierney et al. (2011)
India Comm (log)	India loan commitments received by a recipient country in a year in constant dollars.	Tierney et al. (2011)
United Arab Emirates Comm (log)	United Arab Emirates loan commitments received by a recipient country in a year in constant dollars.	Tierney et al. (2011)
Saudi Arabia Comm (log)	Saudi Arabia loan commitments received by a recipient country in a year in constant dollars.	Tierney et al. (2011)
DAC Comm (log)	Aid loan commitments by all 29 DAC donors altogether received by a recipient country in a year in constant dollars.	OECD (2014)
United States Comm (log)	US loan commitments received by a recipient country in a year in constant dollars.	OECD (2014)
France Comm (log)	France loan commitments received by a recipient country in a year in constant dollars.	OECD (2014)
Germany Comm (log)	Germany loan commitments received by a recipient country in a year in constant dollars.	OECD (2014)
Japan Comm (log)	Japan loan commitments received by a recipient country in a year in constant dollars.	OECD (2014)
United Kingdom Comm (log)	United Kingdom loan commitments received by a recipient country in a year in constant dollars.	OECD (2014)
Low Income	Dummy coded 1 if recipient country is classified as low-income by the World Bank in a year, 0 otherwise.	World Bank (2012a)

Appendix III.2: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Av. Conditions	511	16.33	13.94	0.00	97.00
Av. Fields	423	4.00	1.80	1.00	10.00
World Bank Comm. (log)	2,368	9.30	9.05	0.00	21.43
GDP per Capita (log)	2,441	7.28	0.82	4.90	10.00
GDP Growth	2,309	3.95	7.10	-51.03	106.28
CPI Growth	1,909	0.10	0.13	-0.21	1.00
Gov. Expenditures	2,208	15.59	7.23	2.05	69.54
Int. Reserves	1,827	163.09	3,844.18	-0.17	159,702.50
Investments	1,899	19.62	10.16	-2.42	113.58
Extern Debt	1,877	77.70	95.75	0.00	1,380.77
UN Voting Aff. US	2,470	0.35	0.16	0.00	1.00
Democracy Index	2,526	-2.54	5.85	-10.00	10.00
New Donors Comm (log)	2,646	5.87	8.10	0.00	20.79
China Comm (log)	443	13.08	6.56	0.00	20.79
Kuwait Comm (log)	2,538	2.94	6.44	0.00	20.43
India Comm (log)	324	3.75	6.82	0.00	20.24
United Arab Emirates Comm (log)	1,458	1.76	4.94	0.00	20.00
Saudi Arabia Comm (log)	1,944	2.18	5.71	0.00	20.47
DAC Comm (log)	2,106	18.04	4.38	0.00	23.33
United States Comm (log)	2,232	12.43	7.62	0.00	22.88
France Comm (log)	2,106	13.10	7.10	0.00	21.62
Germany Comm (log)	2,106	12.93	6.82	0.00	21.52
Japan Comm (log)	2,106	11.37	7.59	0.00	21.82
United Kingdom Comm (log)	2,106	9.16	7.89	0.00	21.87
Low Income	1,422	0.65	0.48	0.00	1.00