

Are “New” Donors Challenging World Bank Conditionality?

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Abstract:

This paper investigates whether World Bank conditionality is affected by the presence of “new” donors by using panel data for 54 African countries over the 1980 to 2013 period. Empirical results indicate that the World Bank delivers loans with significantly fewer conditions to recipient countries which are assisted by China. Less stringent conditionality is also observed in 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.

Keywords: World Bank, Conditionality, New Donors.

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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 paper 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.¹ 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

¹ Data on Chinese aid commitments is only available for Africa. Section 3 introduces the dataset employed.

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 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 paper is structured as follows: Section 2 presents an overview of World Bank conditionality and how lending from new donors might influence it, section 3 describes the dataset and estimation employed, section 4 analyzes results obtained, and finally conclusions are derived in section 5.

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 paper 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 paper 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.

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.² The dependent variable is 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 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 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

² See for example Dreher and Jensen (2007) and Bresslein and Schmaljohann (2013).

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 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 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.³ 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.⁴ 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.⁵ 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. Except for China, the

³ These tests are not shown here but are available upon request.

⁴ A value of 1 is added before the logarithmic transformation to keep the zero observations.

⁵ 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.

information on the size and distribution of the loans originate from official records. The estimate for Chinese aid is based on media reports.⁶ 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).⁷ 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 $t-1$.⁸ It allows us to evaluate the impact on conditions for both income groups separately.

Figure 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.⁹ 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 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.

⁶ 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.

⁷ 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.

⁸ 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.

⁹ 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.

Statistics on World Bank conditions in relation to bilateral aid from new and DAC donors are presented in Figures 5a and 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 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 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.¹⁰ 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 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 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.¹¹ 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

¹⁰ Total new donor aid comprises resources allocated by the five new donors under consideration in this study.

¹¹ 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.

t. Fields are simply the different economic sectors that conditions target.¹² 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.¹³ 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 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 1 and descriptive statistics in Appendix 2.

4. Empirical Results

Empirical results from the negative binomial model in equation (1) and testing for hypothesis 1 are shown in Tables 1a and 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 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 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

¹² 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.

¹³ A value of 1 is added before the logarithmic transformation to keep the zero observations.

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 1a and 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 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.¹⁴ 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 1a.¹⁵ 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

¹⁴ The log-point increase is calculated through the formula $(\exp^{me}-1)$, where *me* are the marginal effects.

¹⁵ 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 1a, but also for those in Table 2a.

different from 0.¹⁶ Therefore, World Bank loan stringency will not be revised downwards if the borrower is being financed by China and 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 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 2a and 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 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 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

¹⁶ 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.

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 2005.¹⁷ 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 6a and 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 6a displays results for new donors while Figure 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 7a and 7b. As observed in Figure 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 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 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

¹⁷ 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.

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.¹⁸ 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 7a and 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 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.

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

¹⁸ 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.

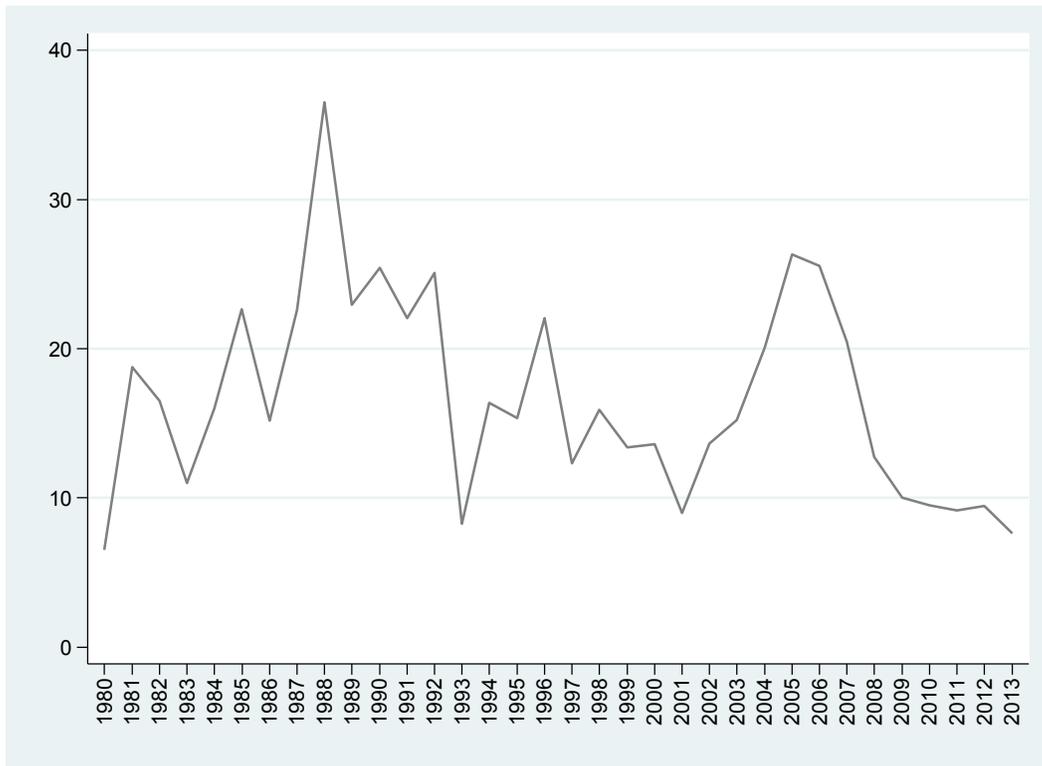
channeling aid to recipient countries with good macroeconomic environments to increase its effectiveness.

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.

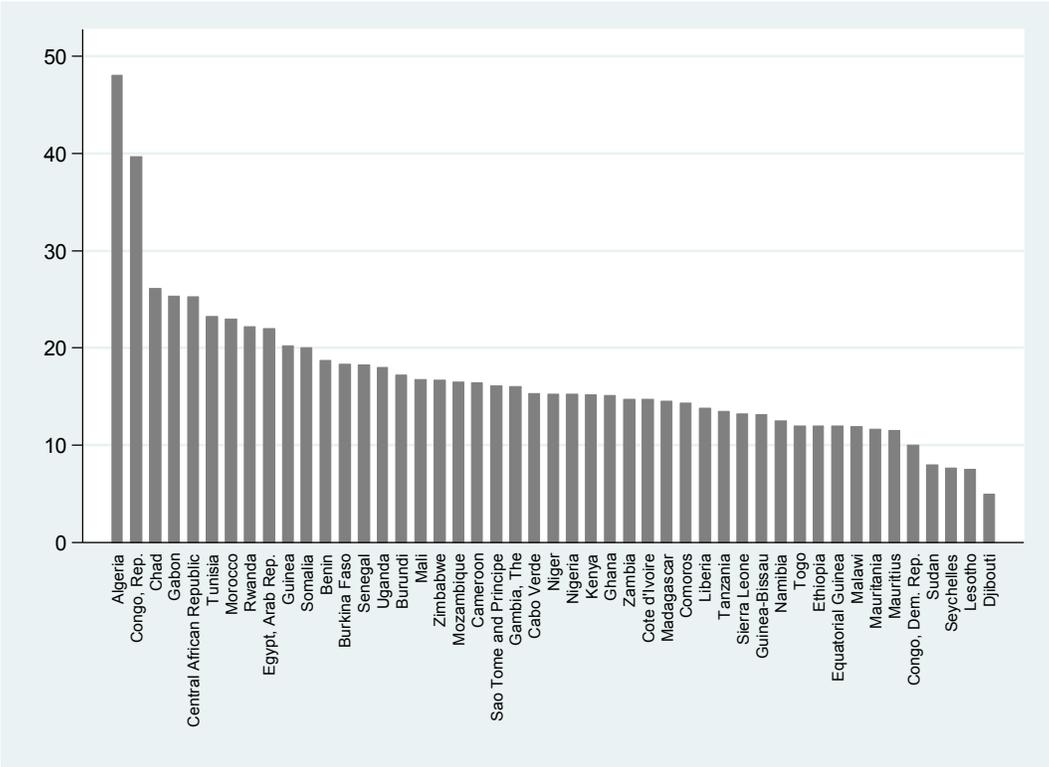
Tables

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



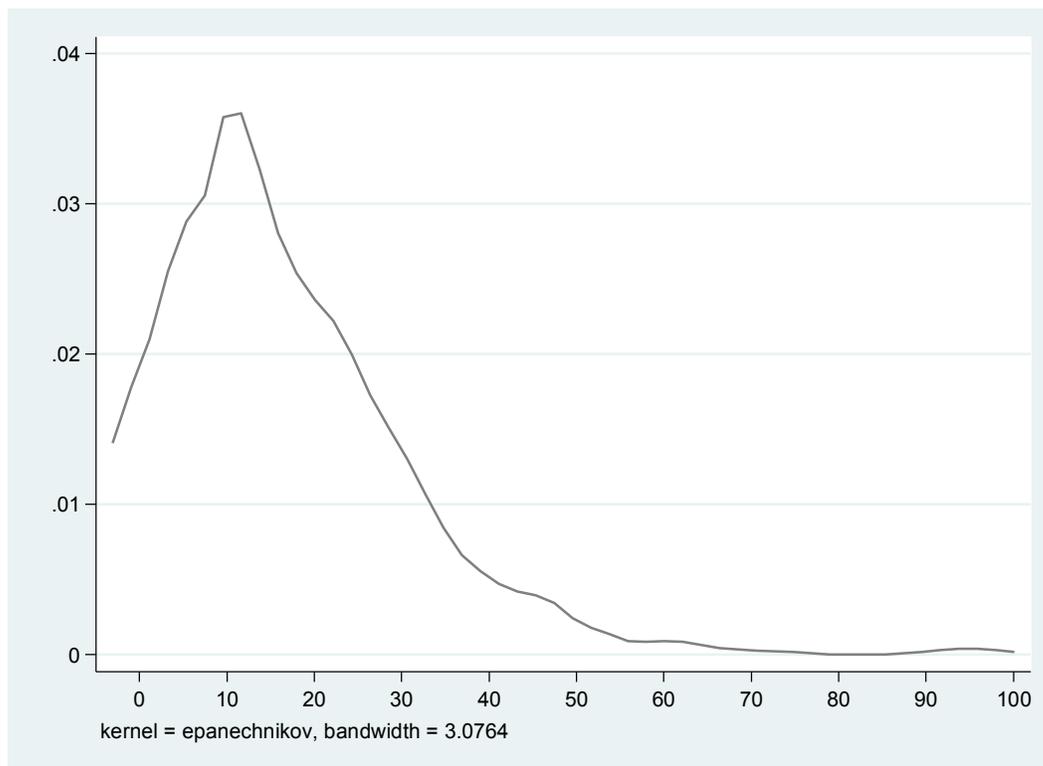
Notes: The figure shows the average number of World Bank conditions delivered per project to recipient countries in Africa each year over the 1980-2013 period. Source: World Bank (2014).

Figure 2: Number of World Bank conditions per project in 1980-2013, average by recipient country



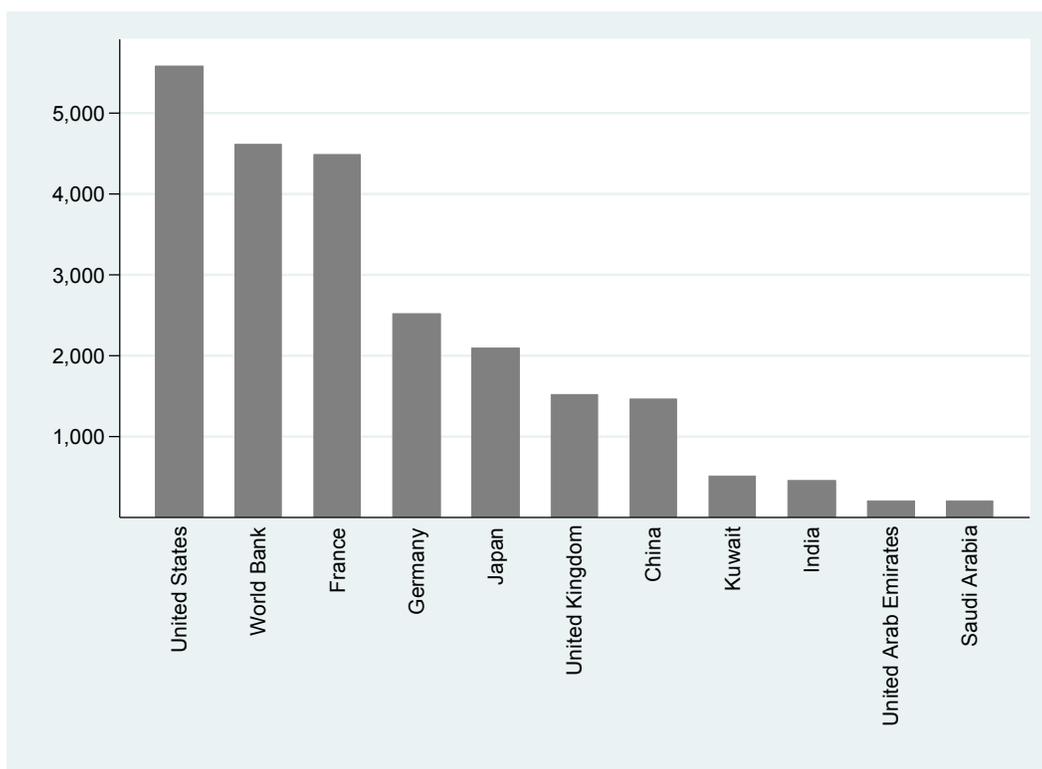
Notes: The figure shows the average number of World Bank conditions delivered per project to each recipient country in Africa over the 1980-2013 period. Source: World Bank (2014).

Figure 3: Number of World Bank conditions per project in African countries in 1980-2013, kernel distribution



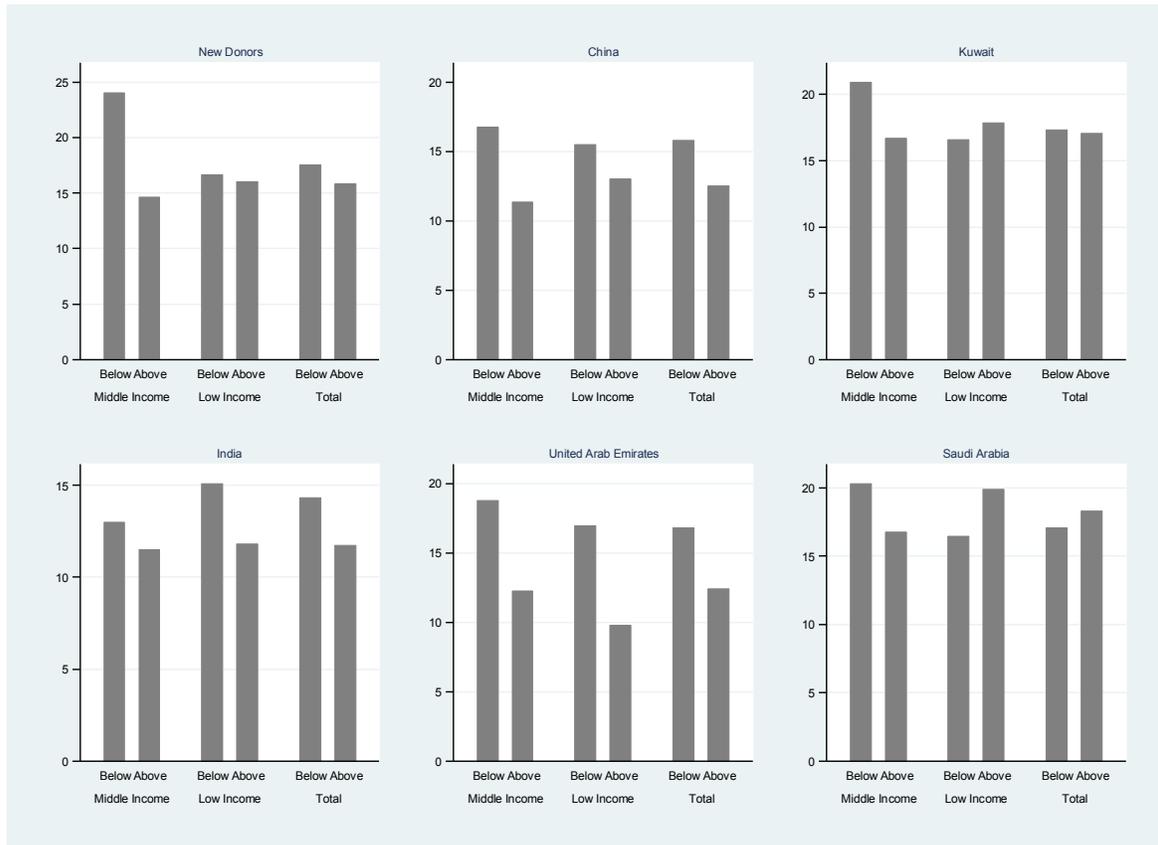
Notes: The figure shows the Kernel distribution for the average number of World Bank conditions delivered per project to recipient countries in Africa over the 1980-2013 period. Source: World Bank (2014).

Figure 4: Aid commitments to African countries in 1980-2012, average by donor



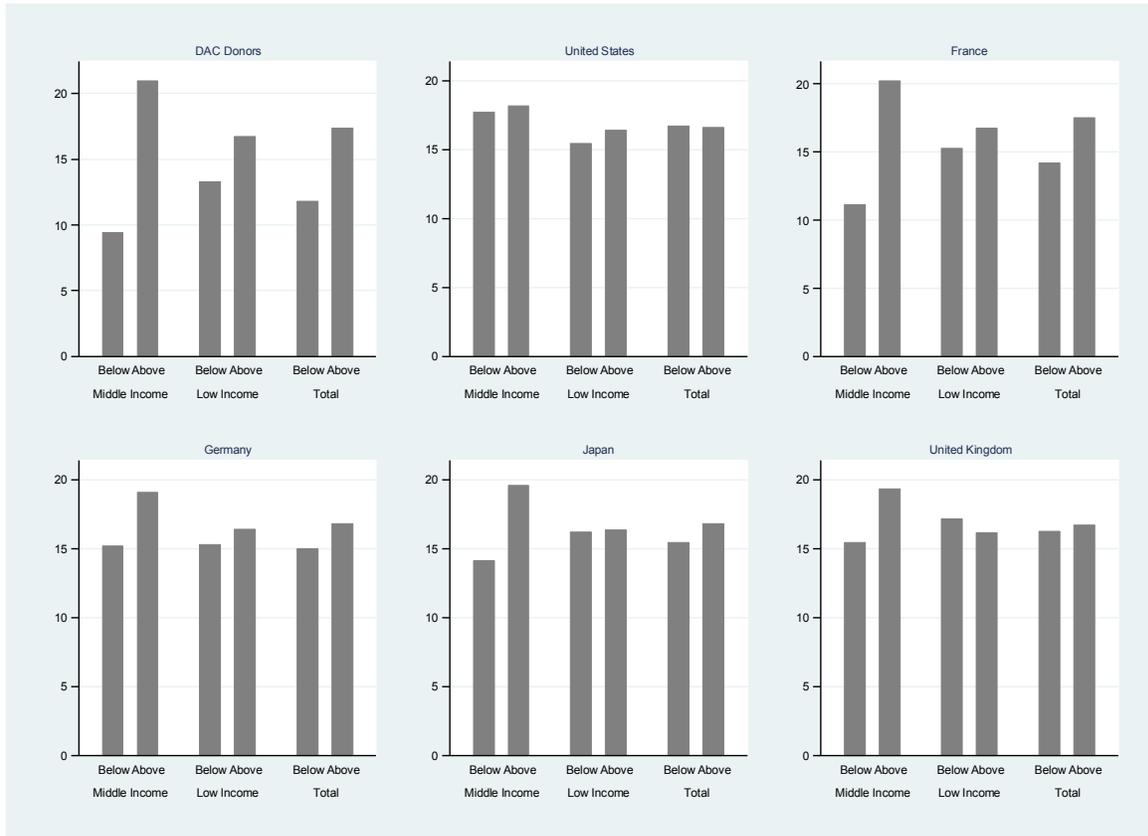
Notes: The figure shows the average loan commitments approved by the United States, the World Bank, France, Germany, Japan, the United Kingdom, China, Kuwait, India, the United Arab Emirates and Saudi Arabia to recipient countries in Africa each year over the 1980-2012 period. Figures are given in US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

Figure 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 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 1a: World Bank conditions and new donors aid commitments, negative binomial, 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											
Time fixed effects	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 1b: World Bank conditions and DAC aid commitments, negative binomial, 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													
Time fixed effects	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 2a: World Bank conditions and new donors aid commitments, negative binomial, 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													
Time fixed effects	Yes													

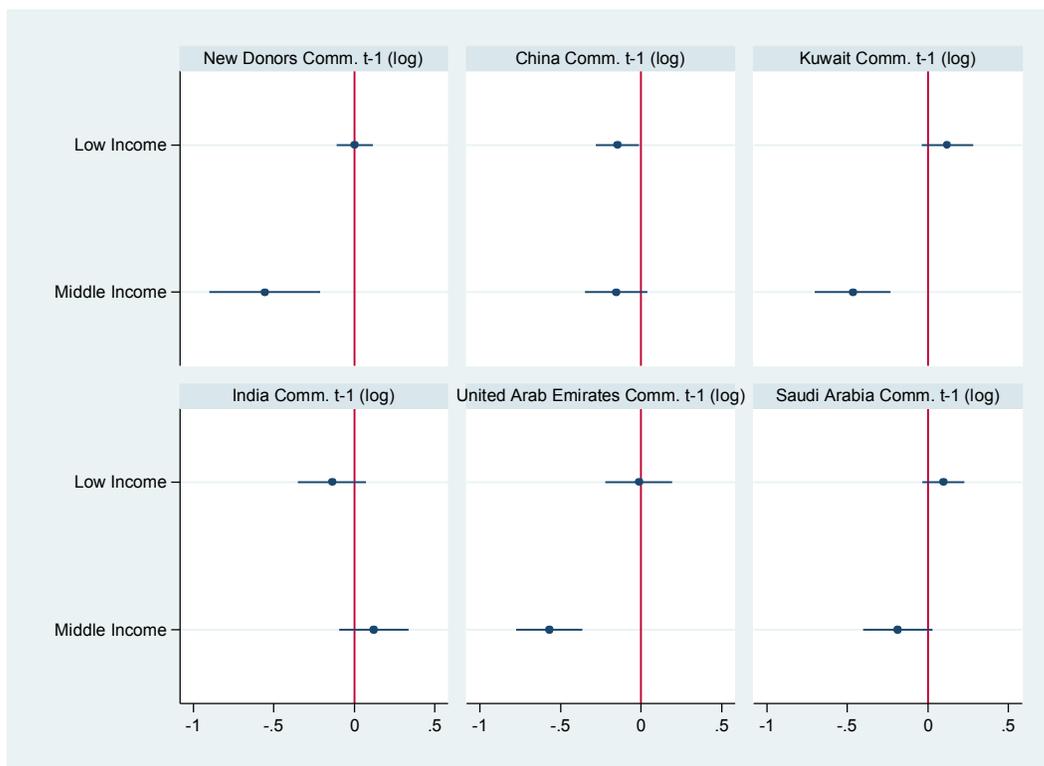
Notes: The dependent variable is the average number of World Bank conditions per project delivered to recipient country i in period t , rounded to the closest integer. Marginal effects at the mean value of the variable are reported. Standard errors are clustered by recipient country i . P-values are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

Table 2b: World Bank conditions and DAC aid commitments, negative binomial, 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													
Time fixed effects	Yes													

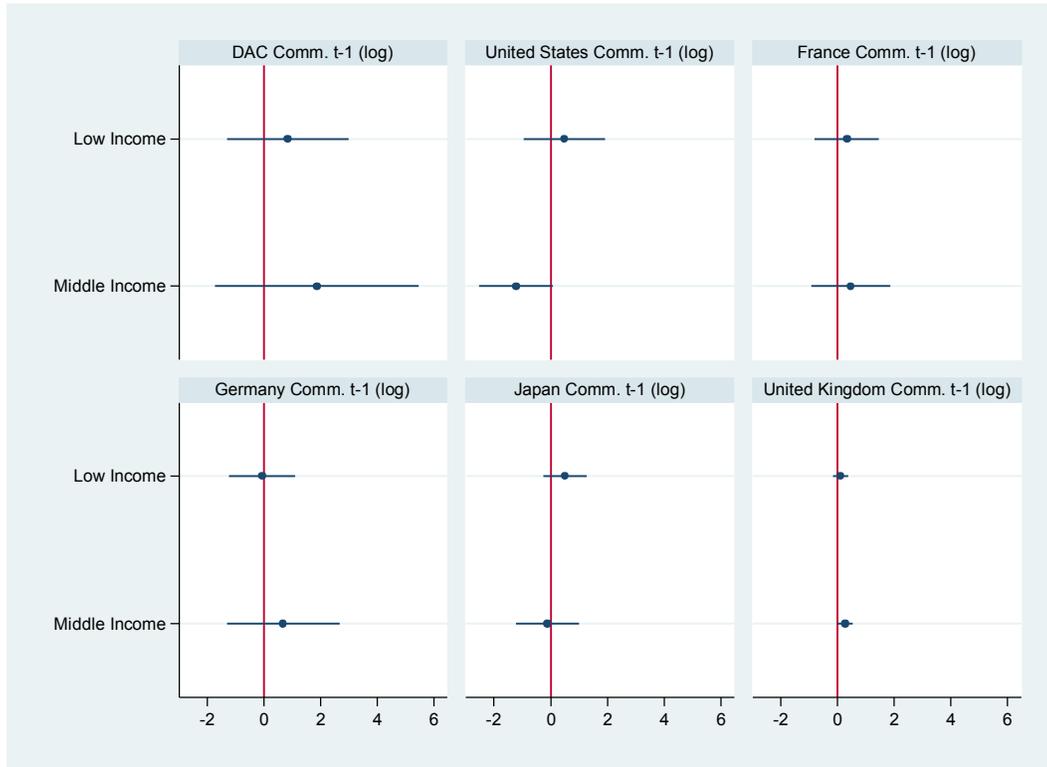
Notes: The dependent variable is the average number of World Bank conditions per project delivered to recipient country *i* in period *t*, rounded to the closest integer. Marginal effects at the mean value of the variable are reported. Standard errors are clustered by recipient country *i*. P-values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

Figure 6a: World Bank conditions and new donors aid commitments by recipient country income category, negative binomial, 1980-2013



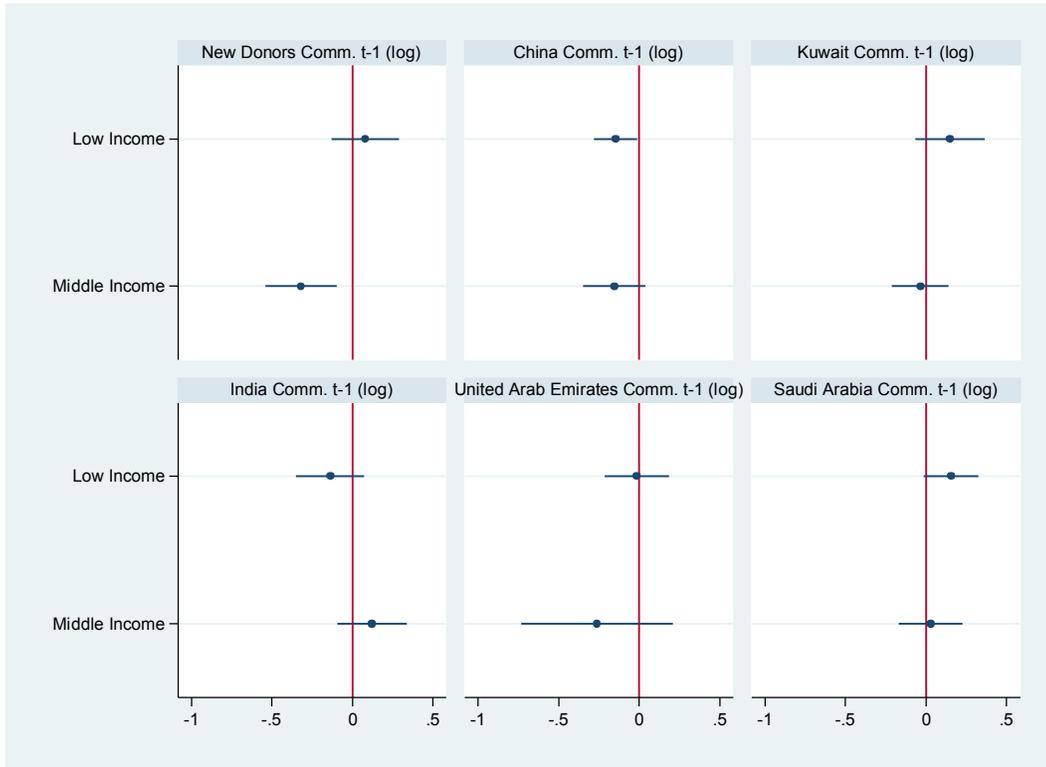
Notes: The figure shows the marginal effect of aid commitments from new donor j on the average number of World Bank conditions delivered. Each figure considers the marginal effect of new donor j for low- and middle-income recipient countries separately. The blue lines highlight the 90 percent confidence 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 6b: World Bank conditions and DAC aid commitments by recipient country income category, negative binomial, 1980-2013



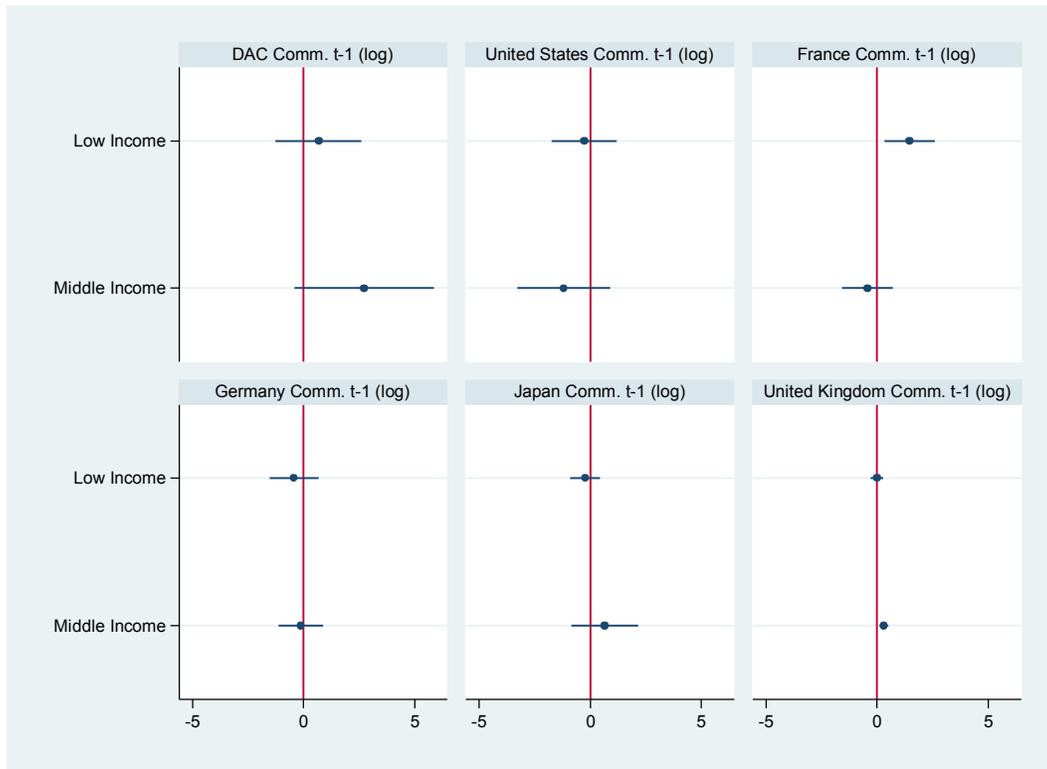
Notes: The figure shows the marginal effect of aid commitments from DAC donor j on the average number of World Bank conditions delivered. Each figure considers the marginal effect of DAC donor j for low- and middle-income recipient countries separately. DAC Comm. refers to aid commitments from all 29 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 binomial, 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).

Appendix

Appendix 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 (2012)
GDP Growth	Growth rate of GDP per capita.	World Bank (2012)
CPI Growth	Inflation rate as measured by the CPI, transformed by $x/(100+x)$	World Bank (2012)
Gov. Expenditures	Government expenditures as a percentage of GDP.	World Bank (2012)
Int. Reserves	International reserves as a percentage of total GDP.	World Bank (2012)
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 (2012)
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 (2012)

Appendix 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

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