Pleasing the Principal: U.S. Influence in World Bank Policymaking

Richard Clark and Lindsay R. Dolan

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†Richard Clark (E-mail: rtc2124@columbia.edu) is a Ph.D. Candidate, Department of Political Science, Columbia University, 420 W 118th St, 7th Floor, New York, NY, 10027. Lindsay R. Dolan (E-mail: ldolan@wesleyan.edu) is an Assistant Professor, Department of Government, Wesleyan University, 238 Church Street, Room 116, Middletown, CT 06459.
Abstract

How do policies in international organizations reflect the preferences of powerful institutional stakeholders? Using an under-utilized data set on the conditions associated with World Bank loans, we find that borrower countries that vote with the U.S. at the UN are required to enact fewer domestic policy reforms, and on fewer and softer issue areas. Though U.S. preferences permeate World Bank decisionmaking, we do not find evidence that borrower countries trade favors in exchange for active U.S. intervention on their behalf. Instead, we propose that U.S. influence operates indirectly when World Bank staff — consciously or unconsciously — design programs that are compatible with U.S. preferences. Our study provides novel evidence of World Bank conditionality and shows that politicized policies can result even from autonomous bureaucracies.

The data and materials required to verify the computational reproducibility of the results, procedures and analyses in this article are available on the American Journal of Political Science Dataverse within the Harvard Dataverse Network, at: https://doi.org/10.7910/DVN/YSS190

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International organizations (IOs) play a special role in financing developing countries. Whereas governments in donor countries often use aid to advance their political objectives, multilateral donors are thought to be more insulated from these pressures (Martens et al. 2002; Milner 2006). In theory, this autonomy uniquely enables IOs to use aid to advance development objectives. Indeed, broad patterns suggest that multilateral aid reflects less political bias than does bilateral aid (Neumayer 2003; Winters and Streitfeld 2018), especially when member countries have heterogeneous goals (Schneider and Tobin 2013). Because governments anticipate this loss of control, they support the IOs that most align with their strategic goals (Schneider and Tobin 2016).

But multilateral organizations are not completely independent, especially of the powerful states that support them. Accumulated evidence suggests that even development institutions like the World Bank often promote the agendas of their principals. Notably, developing countries receive greater volumes of aid from the World Bank when they are aligned with the United States (Andersen, Hansen and Markussen 2006) or themselves serve on the Board (Kaja and Werker 2010). Dreher, Sturm and Vreeland (2009) show that temporary membership on the UN Security Council causes a country to receive more World Bank projects. In addition, World Bank loans disburse faster before elections in countries that are aligned with the U.S. (Kersting and Kilby 2016), and disbursement is less dependent on macroeconomic performance (Kilby 2009). In short, politically important countries are able to secure more projects with larger, faster, and more reliable disbursements.

We test whether this politicization goes so deep as to affect policy conditionality at the World Bank. Widely hailed as the premier global development institution, the World Bank has unparalleled in-house expertise about best practices in development. According to Clemens and Kremer (2016, 53), “the Bank’s greatest impact comes from its role in the

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1 This relates to a broader literature on principal-agent dynamics (Pollack 1997; Abbott and Snidal 1998).

dramatic policy changes many developing countries have undertaken.” However, scholars have been unable to test systematically whether the substance of these policies reflects the political agendas of the Bank’s most powerful players.

Specifically, we examine the set of domestic policy reforms the World Bank asks a country to enact in order to receive assistance. This practice, known as conditionality, occurs when the World Bank offers general budget support rather than lending to support specific investment projects. Conditions are arguably the most important aspect of these loans, as they establish the critical terms a government is expected to meet. From the lender’s perspective, attaching conditions is the only way to utilize bargaining leverage to advance goals, and from the borrower’s perspective, conditions can be costly impositions on sovereignty. Thus, whether conditionality itself is politicized is essential to understanding who wields power in IOs. Because of this, conditionality has been extensively studied in the context of IMF loans, where politically important countries face fewer or less stringent conditions (Dreher and Jensen 2007; Stone 2008, 2011; Dreher, Sturm and Vreeland 2015).

Like the IMF, the World Bank also uses conditions, but we do not know how selectively they are applied. This oversight has not been for lack of interest but for lack of data; Dreher (2004, 457) notes, “since the Bank does not publish conditions included in individual programs, the empirical part has to concentrate on the Fund.” Over a decade later, Stubbs and Kentikelenis (2018, 5), in an updated analysis of IMF conditions, still note that “commensurate data for World Bank conditionality is unavailable.”

We advance this literature by employing an under-utilized data set of World Bank conditionality. The World Bank’s Development Policy Action Database contains comprehensive information on the conditions attached to World Bank development policy financing arrangements since 2005. These highly granular data allow us to highlight variation in the stringency of World Bank conditions and their content. We are among the first to quantitatively examine these conditions directly; to our knowledge, the only previous academic use of these data is by Hernandez (2017), who argues that the World Bank responds to Chinese influence by
attaching fewer conditions to African countries receiving aid from emerging donors. Instead, we use these data to investigate whether World Bank lending behavior reflects U.S. interests in a global sample.

We find that conditionality at the World Bank heavily reflects U.S. interests. Specifically, when countries vote more closely than usual with the U.S. in the UN General Assembly, they are required to enact fewer domestic policy reforms, and on fewer and softer issue areas. Our argument therefore corroborates a U.S.-centric view of World Bank governance, showing that the U.S. is so influential that its preferences pervade even highly disaggregated project-specific policy decisions.

We do not believe that favoritism occurs because borrower states convince the U.S. to intervene on their behalf in exchange for votes, as Dreher, Sturm and Vreeland (2015) claim takes place at the IMF. If power were exercised instrumentally in this way, we would expect to see borrower countries with politically advantageous positions, such as representation on the UNSC, using their leverage to reduce their conditionality burden. However, we find that these leadership roles have no effect on World Bank conditions, nor did interviews with World Bank leaders or staff yield any evidence that the U.S. actively intervenes to adjust conditions.

Drawing on interviews with development elites, we advance a view of power that is more indirect or structural: the World Bank staff design programs that reflect the preferences of its largest shareholder. For countries that are friends of the U.S., staff expedites programs, sometimes losing conditions in the process. For countries that are not friends of the U.S., staff impose costlier conditions. Two complementary mechanisms can account for these patterns. First, staff may consciously seek to demonstrate to their largest financial backer that their work supports its interests. Second, staff may unconsciously share the worldview of the U.S., and this guides their judgments. Either way, neither borrower countries nor the U.S. need to be especially active for U.S. interests to be felt diffusely in hundreds of financing arrangements.
Our project illustrates that politicization of IOs is possible even when bureaucratic staff enjoy considerable autonomy. This staff-centered explanation for politicization of conditionality could result from either principal-agent or organizational dynamics, two approaches that are frequently viewed as competing. However, in our framework, they are compatible and even mutually reinforcing. Our argument therefore illustrates how important stakeholders are able to exercise structural and not merely instrumental power in IOs.

1 Power and Conditionality in IOs

When an international financial institution extends budgetary support to a government, it has a rare opportunity to compel domestic policy reforms. As such, these conditions matter enormously to lenders. The World Bank adopted conditionality in 1980, issuing the first structural adjustment loan (SAL) to Bangladesh in February of that year (Kapur, Lewis and Webb 1997, 509). For development banks, conditionality allows the donor to push a recipient to adopt its own view of development, insulates reform-minded recipients from special interests (Vreeland 1999, 38), and allows recipients to credibly signal policy commitments to investors (The Theory and Practice of Conditionality: A Literature Review 2005). Its efficacy is widely debated (Collier 1997). Some argue that the one-size-fits-all approach behind conditionality hinders the borrowing country (Li, Sy and McMurray 2015), while others instead point to lax enforcement or incomplete implementation of conditionality on the part of lenders (Mosley, Harrigan and Toye 1995, Dreher 2004).

Regardless, borrowing countries view conditionality with great interest and, frequently, skepticism. Conditions constitute meaningful and costly intrusions into domestic policy, and borrowing countries would prefer to benefit from financial assistance while ceding minimal sovereignty over their internal affairs. Even borrowers that tolerate conditionality care a great deal about the substance of the conditions, since they will become policy. Because conditions are so important to both borrower and lender, they are a useful lens for understanding who
wields power in the world’s most powerful lending institutions.

Scholars have debated for decades the extent to which IOs behave autonomously in world politics. One tradition in international relations conceives of IOs as bureaucracies that are relatively insulated from political forces (Vaubel 1991, Barnett and Finnemore 1999). This view sees bureaucrats as the main actors responsible for the behaviors of institutions and tends to explain their interests sociologically by pointing to the worldviews, beliefs, and routines that guide their day-to-day judgments. Organizational autonomy, culture, and practices, scholars argue, are critical to understanding the success and even design of institutions (Johnson 2014). If IOs are run autonomously, we would expect their behaviors to primarily exhibit the views of their staff members and to be relatively devoid of political interference from governments.

Others, however, underscore the principal-agent relationship that exists between these institutional bureaucracies and powerful member countries (Thacker 1999, Barro and Lee 2005). In this tradition, states are primary actors who authorize and support IOs, and their willingness to back organizations depends on the extent to which these institutions advance the state’s own political objectives. Although states must delegate some autonomy to bureaucrats tasked to carry out operations, they will monitor these agents sufficiently to minimize the gap between their goals and institutional outcomes (Hawkins et al. 2006). Some go so far as to suggest that IOs are epiphenomenal, perfectly reflecting the preferences of powerful stakeholders (Mearsheimer 1995). With states as the primary actors, then, this latter group would not be surprised to find conditions that reflect the geopolitical preferences of powerful countries more so than technical criteria.

Several scholars have applied these approaches in their investigations of conditionality at the IMF. Some suggest that conditions are shaped by an autonomous IMF staff, who award more lenient terms to countries run by officials with similarly neoliberal economic beliefs (Chwieroth 2015, Nelson 2017). Others, however, argue that this variation is explained by the political preferences of IO principals. Dreher and Jensen (2007) show that countries
voting with the U.S. in the UN General Assembly receive fewer conditions, especially before elections. [Dreher, Sturm and Vreeland (2015)] find that countries who are temporary members of the UNSC receive 30 percent fewer conditions. Similarly, [Stone (2004, 2008, 2011)] argues that major stakeholders selectively intervene in cases relevant to their interests to limit conditionality or its enforcement.\(^3\)

Both approaches have also been applied toward understanding World Bank practices, although not directly to conditionality.\(^4\) Adopting an organizational approach, [Weaver (2008)] presents the World Bank as an autonomous agent whose sometimes “hypocritical” behaviors result from clashes between organizational culture and exogenous factors. Focusing on principal-agent dynamics, other studies find biases in policy that reflect states’ interests in assistance to politically important countries (Frey and Schneider 1986; Fleck and Kilby 2006; Andersen, Hansen and Markussen 2006; Dreher, Sturm and Vreeland 2009). This political bias even appears in subtler aspects of World Bank activity. [Kilby (2013)] finds that project preparation periods are shorter for geopolitically important countries, and [Kersting and Kilby (2016)] find that loans disburse faster to politically important countries before elections. [Kilby and Michaelowa (2019)] show that performance ratings exhibit similar patterns. It is therefore no surprise that [Dreher (2004, 457)] claims identical hypotheses regarding variation in conditionality at the IMF and World Bank, although data limitations prevented this second test.\(^5\)

\(^3\) Also see Copelovitch (2010).

\(^4\) Some studies examine conditionality at the World Bank indirectly (Montinola 2010). Meanwhile, Kilby (2009) shows that SAL disbursement is less contingent on macroeconomic performance for U.S. friends, but this could follow either from less stringent conditions or lax enforcement. We analyze DPF conditions, which require action before loan approval. As such, we can be certain that any politicization is the result of less stringent conditions. Indeed, the shift from SALs to DPF was motivated in part by the desire to eliminate enforcement issues (Collier 1997).

\(^5\) Not all studies of the Bank find evidence of geopolitical influence. See Malik and Stone (2018), for
While the institutional autonomy and power politics approaches are typically viewed as competing, we claim that at the World Bank, they are compatible and even mutually reinforcing. The Bank is a U.S.-dominated institution (Gwin 1997; Kapur 2002; Morris 2016). Formally, the U.S. holds the largest voting share, so theoretically it has considerable ability to coerce agents into supporting its interests. But U.S. worldviews and values are omnipresent in the institution even in the absence of such coercion. Traditionally led by an American and located in Washington, D.C., U.S. citizens comprised a quarter of World Bank staff in 2006-2015 (Das, Joubert and Tordoir 2017). Additionally, U.S. government officials regularly meet with Bank staff. We expect this increases their ability to monitor the activities of agents, but also directly influences the staff’s beliefs and worldviews, rendering oversight less important.

Therefore, we argue that when a particular state so dominates an institution that it can select agents with similar values and nurture a shared culture, the institutional autonomy and power politics approaches are not only empirically but also theoretically indistinguishable. Rather than trying to differentiate or isolate the two approaches, we test the prediction they share:

**Hypothesis 1.** *Countries of political importance to the U.S. receive fewer and less stringent conditions from the World Bank.*

Conventional accounts of political bias in IOs focus on a mechanism of “global horse-trading,” the idea that IO loans or policies are on the bargaining table in deals between state actors, who then actively intervene to enact these policies (Dreher, Sturm and Vreeland 2009). This mechanism adopts a state-centric view of IOs, as outcomes reflect not the instance.

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6 The next largest nationality is Indian, at just 6%.

7 We would expect similar dynamics when a group of powerful principals have homogenous preferences. See Copelovitch (2010).
decisions made by staff but the bargains reached between the U.S. and borrower countries. Therefore, this could explain variation in conditions if borrower countries care deeply about reducing the conditions they receive from the World Bank, apply what bargaining leverage they have toward reducing their World Bank conditions, and convince their patrons to directly intervene on their behalf. However, patterns in our quantitative analysis do not support this story.

The explanation we favor is that World Bank staff design programs that reflect the preferences of the U.S., without any kind of intervention. They do so by adding more conditions to the countries that are viewed as problematic by the U.S., while providing easier paths for countries that are highly valued. In this way, organizational bureaucrats design policies that please the principal. Such preferential treatment could result from bureaucrats consciously anticipating American preferences, which they act on out of career concerns, or from the staff’s own U.S.-biased beliefs. Either way, it is the behaviors of staff and not states that result in U.S.-centric policies. Interviews with current and former World Bank leaders and staff lend credence to this story, supporting our claim that organizations may be simultaneously autonomous and politicized.

Our account of politics at the World Bank is more consistent with notions of structural power than instrumental power (Lindblom 1977). In contrast to instrumental power — exercised through the act of financing or lobbying — structural power is “indirect and diffuse” (Konings 2009, 70), resulting from thousands of private individual decisions “rather than from any organized effort to influence policy makers” (Hacker and Pierson 2002, 281). As Strange (1996, 26) observes, “‘power over’ need not be confined to outcomes consciously or deliberately sought for. Power can be effectively exercised by being there, without intending the creation or exploitation of privilege.” Although typically leveraged to explain the power that markets can hold over states, structural power dynamics, as we show, can also be found within international institutions. In the World Bank, at least, powerful states need not engage in quid pro quos for their interests to be satisfied through diffuse and unobservable
processes.

2 The Development Policy Action Database

Our study examines the conditions attached to Development Policy Financing (DPF) operations. These arrangements provide “rapidly-disbursing financing to help a borrower address actual or anticipated development financing requirements ... through a program of policy and institutional actions.” The World Bank’s general budget support instrument, DPF is the inheritor to Structural Adjustment Lending (SAL) as of FY2005. It “represents a shift away from short-term macroeconomic stabilization and trade liberalization reforms of the 1980s-90s towards more medium-term institutional reforms” but continues to be a channel through which the World Bank can shape domestic policy. DPF is a lending instrument, alongside Investment Project Financing, Program-for-Results, trust funds, and private sector options. DPF programs can be administered as International Development Association (IDA) grants or credits or as International Bank for Reconstruction and Development (IBRD) loans. Today, DPF loans are single tranche and disburse after Board approval, and prior actions are expected to be met before the Board will approve a loan.

DPF is vital to World Bank activity. It constitutes around one-fourth of total World Bank lending. Over the last decade, this corresponds to $117 billion covering 630 operations and 22 supplemental financing operations. DPF programs are substantively similar to IMF loans — prior actions are binding, funding spikes during financial crisis (see Figure 1),

10 https://ieg.worldbankgroup.org/topic/development-policy-financing-dpf
11 Before being phased out, a few DPLs in the late 2000s included multiple tranches.
and the programs target cash-strapped middle and low income recipients. Just as studies of conditionality at the World Bank prior to 2005 focus on SAL (Montinola 2010; Kilby 2009), studies after 2005 should focus on DPF. With some exceptions, only projects that are financed through DPF come with attached conditions; this is why conditionality data is systematically unavailable for projects financed using other lending instruments.

We utilize data from the World Bank’s Development Policy Action Database, containing loan information for all DPF arrangements undertaken by the Bank 2005–October 2018. The data have recently been made publicly available on the “Products and Services” page of the World Bank, although the data we analyze were obtained through an Access to Information request prior to their publication. The data set is updated at the end of each fiscal year by the Operations Policy and Country Services Vice Presidency.

The data set’s unit of observation is the project-year (of approval). Each observation includes the project name, country, type (IDA or IBRD), size (in U.S. dollars), dates of approval and disbursement, and, most important for our purposes, the number of conditions. The nature of DPF is conditional, and nearly all DPF projects are associated with at least one condition.12

The data contain information on two types of conditions — prior actions and benchmarks — but we focus exclusively on prior actions. Prior actions are “policy and institutional actions deemed critical to achieving the objectives of a program supported by the development policy operation. These present the legal terms defined in the loan agreement that have to be met for each operation before disbursement.”13 Prior actions are nearly always enforced; it is

12There are 25 observations with zero conditions in the full dataset, but 22 of these correspond to supplemental loans. Because these supplemental projects are substantively different (Kersting and Kilby 2019), we drop them from the analysis, leaving only three observations with no conditions.

unusual for staff to request a waiver. In an emergency situation, they will instead negotiate prior actions that are manageable for the country to quickly implement.\textsuperscript{14}

Benchmarks constitute another, now defunct, type of condition. In SALs (before 2005), prior actions were completed before approval, while benchmarks were expected to be completed before project’s end. Since SALs contained multiple tranches, benchmarks were used to evaluate subsequent disbursement. As alternative performance monitoring tools emerged, benchmarks became nonbinding policy actions. This resulted in controversy over the extent to which benchmarks actually mattered. Although they were included in a country’s performance and learning review, but they were clearly less consequential than prior actions.\textsuperscript{15} The World Bank eliminated benchmarks in 2012.

We focus exclusively on prior actions as hard conditions most similar to those used at the IMF, and because they have been used consistently for the duration of our data. While we could study benchmarks by limiting our data to 2005-2012, the negative binomial models are unable to converge with so few observations.\textsuperscript{16} For the rest of the paper, we use the terms “conditions” and “prior actions” interchangeably.

The data also note the content and categorical coding of each prior action, allowing us to use the condition as the unit of analysis. We spot checked the data and confirmed that the text of the prior action matches identically the prior action noted in the official project documentation. We delve into the text of these conditions when we discuss the mechanisms, but the bulk of our analysis uses the project-level data.

Measuring the stringency of conditionality, our main dependent variable is the count of the prior actions agreed to by the World Bank and recipient country in a given project–year.

\textsuperscript{14}Interview A.

\textsuperscript{15}Interview A.

\textsuperscript{16}Given the important differences between SAL and DPF, especially with respect to the meaning of benchmarks, we do not use data prior to 2005.
Count variables are a common measure of stringency in the IMF literature (Dreher 2009; Copelovitch 2010) and are even used by the Fund (Ivanova et al. 2001). Since DPF programs share similarities with IMF programs, the count is an appropriate measure of stringency at the World Bank. However, we also examine the content of the conditions. Following Stone (2008), we calculate the number of categories that prior actions span for a given project.\footnote{The count of categories uses category codings from Kentikelenis, Stubbs and King (2016). Of course, a multi-sector loan is not necessarily more demanding than a single-sector loan, as a World Bank official pointed out (Interview C).}

Last, we use the text of the conditions themselves, examining the distribution of words that frequently appear.

Figure 2 illustrates geographical variation in the average number of World Bank conditions. Unsurprisingly, African and Latin American countries receive more conditions per project than other regions. Such regional differences are accounted for through our use of country fixed-effects, which also account for country-specific factors.\footnote{We implement fixed-effects by including dummy variables so that the conditional mean varies by country. See \url{https://statisticalhorizons.com/fe-nbreg}.}

Since the count data is overdispersed (Figure A1, Appendix p. 5), and consistent with similar studies, we use a negative binomial count model as our primary specification.\footnote{See, e.g., Stone (2008, 2011) and Copelovitch (2010).}

\footnote{Interview C.} The average stringency of DPF conditionality varies only slightly over time (Figure 3), as Operations Policy and Country Services (OPCS), the branch of the World Bank that oversees DPFs, has strong norms regarding the ideal number of conditions. The average number of prior actions associated with a loan declines after 2012, when the team concluded that DPFs needed to lower the number of conditions from 10-11 to 7-8 per project.\footnote{Interview C.}
for this change, our primary models control for a dummy variable signifying loans awarded after 2012. Since average conditionality otherwise exhibits little temporal variation, year fixed-effects could lead to over-fitting.\textsuperscript{21}

Our explanatory variables measure the political importance of borrowing countries to major shareholders. We have two measures of the geopolitical importance of countries to the U.S., namely \textit{U.S. aid} and \textit{UN voting}.\textsuperscript{22} Both U.S. aid and UN voting trends have been shown to negatively influence the intrusiveness of IMF conditionality (Stone 2008).

As a placebo test for our U.S.-centric story, we test for European influence over World Bank policymaking. While European interests have been shown to shape foreign aid (Frey and Schneider 1986, Carnegie and Marinov 2017), Europe lacks the formal and informal power of the U.S. described above. The Bank is headquartered in the U.S., an American serves as its President, and the U.S. Congress has special influence over the IDA budget. To measure the importance of countries to European shareholders, we include a binary indicator for former colonies of the EU president, \textit{EU president colony}. Stone (2004) shows that African countries with close relationships with the former European colonial powers receive less stringent enforcement at the IMF. Our country fixed-effects absorb the effect of being a foreign European colony; \textit{EU president colony} introduces temporal variation in this variable.

We control for several economic and political predictors of conditions.\textsuperscript{23} Countries that

\textsuperscript{21}We offer a more formal rejection of year fixed-effects on Appendix p. 11 Table A9.

\textsuperscript{22}Aid data is measured in gross millions of constant USD. We set negative values equal to 0, add 1, and log the data. UN voting data comes from Bailey, Strezhnev and Voeten (2017), and we use ideal point distance and important votes per the authors’ recommendations.

\textsuperscript{23}Table A2 on Appendix p. 3 contains the list of covariates and their sources. We do not control for the size of the loan since this is decided simultaneously with conditions.
have larger DEBT SERVICE / GDP and SHORT-TERM DEBT / GDP ratios, those experiencing higher INFLATION, and those with higher DEBT / GDP ratios should receive more conditions, while countries with larger FDI / GDP ratios and more trade OPENNESS should receive fewer. Given their domestic policy constraints, countries that are more democratic (POLITY2) should receive fewer conditions (Stone 2008, 614). Next, countries that are WORLD BANK BOARD MEMBERS or UNSC MEMBERS might receive fewer conditions – both positions offer states transient political power that they could expend to bargain down the stringency of conditionality (Dreher, Sturm and Vreeland 2009, 2015; Kaja and Werker 2010). Additionally, those that are at WAR or in an ELECTION YEAR may receive a break on conditionality, as war implies reduced state capacity and IOs wish to avoid skewing elections (Stone 2011). Next, as Hernandez (2017) shows, countries that receive more CHINESE AID may also receive reduced conditions. Last, countries with IMF PROGRAMS may receive fewer conditions because the World Bank staff know that the IMF is already pursuing reforms.

Because these covariates often exhibit missingness in our sample of low and middle income countries, we impute missing data by multiple imputation, though we also run our models with a restricted subset of covariates and no imputation for robustness. We lag all independent variables by one year. A DPF loan does not appear in the data until it is approved and disbursed, and since approval is based on prior actions, independent variables must be measured prior to approval. DPFs follow a much shorter timeline than other kinds of loans — six months or less — so we use one-year lags.

Table A3 (Appendix p. 4) contains summary statistics. We standardize all independent variables in subsequent testing for ease of interpretation and to assist the negative binomial models, which fail to converge if independent variables are on different scales.

We recognize that determinants of the number of conditions a country receives may also

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24 Using data from Dreher et al. (2017), we make the same adjustments as for U.S. aid above.

25 Interview B. Kersting and Kilby (2016) find that some loans are approved as quickly as one month.
affect a country’s receipt of a DPF loan and therefore its very appearance in our data. However, we choose not to account for selection into DPF programs in our primary specifications. This decision is informed by recent commentary in the IMF literature, especially Stone’s (2011) discussion of problems associated with these models. Nonetheless, on Appendix pp. 14-16, we show that our results are robust to selection adjustments.

3 Empirical Analysis

We find that countries with strong political ties to the U.S. receive fewer World Bank conditions covering fewer policy areas. UN VOTING is strongly associated with the burdensomeness of World Bank conditionality in the expected direction. Column 1 of Tables 1 (without controls and imputation) and 2 (with controls and imputation) show that a country receives significantly more prior actions when it aligns less closely than usual with the U.S. on important votes in the UNGA. Similar results obtain when we examine the “scope of conditionality,” or the number of categories conditions span (Stone 2008). Again, as shown in Column 2 of Tables 1 and 2, UN VOTING is statistically significant.

[Table 1 about here.]

[Table 2 about here.]

The effect sizes are substantively meaningful. In Table 2, a one standard deviation increase in ideal point distance is associated with roughly 1.05 times more conditions and conditions that cover 1.1 times more policy categories. Moving from the minimum to the maximum ideal point distance value corresponds to a 30% increase in the number of conditions covering about 60% more policy areas. While these magnitudes are not overwhelmingly large, they clearly matter for borrowers.

26 Stone notes, “[T]he results depend on the validity of the assumptions used to identify the [partial observability] models [which] have poor convergence properties, and the results are not generally robust to specification changes.”
While we would expect other measures of ties to the U.S. to similarly vary with conditions, they do not. U.S. aid is not significantly related to conditionality. We also do not find any evidence that European ties matter. Similarly, being a World Bank board member does not appear to matter for conditionality. This is perhaps unsurprising, as board membership might matter more for internal institutional reasons than for geopolitical reasons (Kaja and Werker 2010). We unpack the null findings on U.S. aid and UNSC member in the next section.

Lending confidence to our models, most covariates are signed in the expected direction, though only two variables (debt service / GDP and FDI / GDP) beyond our post-2012 time adjustment obtain statistical significance in either model. Countries with higher than usual levels of debt service and FDI relative to GDP appear to receive less burdensome conditionality from the World Bank.

U.S. influence shapes not only the count and scope of conditionality but also its content. We compare the text of conditions required of friends versus foes of the U.S. We code a country as a “friend” of the U.S. if its UN voting is less than the median score in a given year and a “foe” otherwise, so it accounts for temporal variation in average UN voting proximity. The word clouds in Figure 4 suggest that friends receive conditions with softer text than do foes. Conditions for friends emphasize “published,” “evidenced,” and “management,” suggesting a softer emphasis on process and planning. In contrast, foes’ conditions center around “law,” “budget,” and “government”, which suggests a stricter attention to policy and reform. This descriptive analysis is consistent with our claims that countries of importance to the U.S. receive more lenient conditions.

[Figure 4 about here.]

We take several precautions to ensure our results are not driven by multiple imputation. First, we adopt an alternative method by using k-nearest neighbor (kNN) imputation, which some prefer to multiple imputation for its non-parametric approach. UN voting remains positive and statistically significant (Table A4, Appendix p. 6). In Table A5 (Appendix p.
7), we simply drop the rows for which there is any missing data, omitting over 40 percent of the observations. When we do this, un voting remains significant only when the DV is the number of conditionality categories. We are not very concerned with these findings because our mechanism is most applicable to the low capacity developing countries for which data missingness is most common. But to further alleviate any concern that our results are driven by imputation, we perform an analysis with a restricted set of the most theoretically important covariates for which there is no data missingness. These results appear in Table A6 (Appendix p. 8) and are substantively similar to our main models. Alongside the bivariate regression results from Table 1, these findings suggest that our results are not driven purely by imputed data.

We report additional robustness checks in the Appendix due to space constraints. First, we use ordinary least squares and Poisson specifications instead of negative binomial models (Table A7, Appendix p. 9). Second, we include random effects and year fixed-effects instead of our post-2012 dummy (Tables A8-A9, Appendix pp. 10-11). In the latter model, un voting retains statistical significance only for the number of categories dependent variable. However, we report the coefficients for each year dummy excluding 2013, which is captured by the post-2012 variable. None of the year dummies achieves statistical significance at the 0.05 level in either test, and the year dummies are also jointly statistically insignificant, as we discuss in the caption to Table A9. We therefore believe that we have good reason to reject the inclusion of year dummies in our other models. Third, our results survive both a Heckman and inverse probability weighted selection model (Tables A11-A13, Appendix pp. 14-16).

Overall, we conclude that UN voting is a robust driver of World Bank conditionality. Countries that vote more closely than usual with the U.S. during important votes in the UNGA receive fewer prior actions spanning fewer issues, and friends of the U.S. receive more softly worded conditions.
4 Mechanisms

How do U.S. interests become reflected in the conditions attached to World Bank loans? We argue that politicization of World Bank conditions is staff-led, not state-led. This section was written in response to our above findings and draws on interviews with representatives and staff at the World Bank.\textsuperscript{27}

First, we investigate whether conditionality results from bargains struck between state actors. If borrowing countries dislike World Bank conditions strongly enough, then they will apply whatever political pressure they can to reduce this load. While we would expect all borrowing countries to do this, friends of the U.S. should enjoy greater success with a powerful champion at the Bank. In turn, the U.S. will expect other favors, such as support at the UN.

But countries do not receive fewer conditions when they serve as temporary members of the UNSC. Countries in this position are able to reap rewards like aid and reduced IMF conditions, as they can promise powerful actors their vote (Dreher, Sturm and Vreeland 2009, 2015; Vreeland and Dreher 2014). They do not, however, receive fewer conditions from the World Bank (Table 2).\textsuperscript{28}

Perhaps UNSC members have bargaining leverage but choose not to apply it toward their World Bank conditions. If World Bank conditions are less stringent relative to IMF conditions, then borrowing countries should apply their limited political capital toward reducing more onerous IMF conditions. This possibility resonated with one senior official who has represented the U.S. on the Board at both the World Bank and the IMF: “[DPFs] are not make or break loans for a country’s economy. When an IMF agreement was pending, there were times where an ambassador might reach out to me directly, but I don’t remember any

\textsuperscript{27}Information about how we identified and interviewed respondents appears Appendix p. 2.

\textsuperscript{28}UNSC members comprise about 10 percent of observations.
country asking to ease its conditionality burden at the World Bank.\textsuperscript{29}

We do find that World Bank conditions are relatively less stringent. We compare the prior actions at the World Bank to IMF conditionality data from Kentikelenis, Stubbs and King (2016), which provides the text of conditions for all IMF programs from 1978 onward. Both the World Bank and IMF data code conditions according to different policy categories. We harmonize the sector codes and focus on the period for which we have data for both IOs (2005-2018).

[Figure 5 about here.]

Figure 5 shows the relatively harder policy focuses of the IMF compared to the World Bank. The Fund focuses its efforts on financial sector reforms and fiscal and debt policy, and commonly demands changes to taxes, trade and exchange regimes, and state-owned enterprises. These policy areas correspond to IMF tenets of liberalization, fiscal austerity, and privatization, which impose significant short-term costs and fuel domestic unrest.\textsuperscript{30}

Shying away from these challenging policy areas, the World Bank instead focuses on revenues and taxes, institutions, redistribution, and the environment; these accord with the Bank’s sustainable development goals and rarely lead to unrest.

[Figure 6 about here.]

Comparing the text of conditions yields similar findings. Figure 6 contains word clouds of prior actions at both institutions.\textsuperscript{31} IMF conditions are clearly focused on costly actions

\textsuperscript{29}Interview A.

\textsuperscript{30}For example, recent austerity measures in Greece and Argentina have led to political backlash and protests.

\textsuperscript{31}The World Bank sample is restricted to country-years where there is an IMF program ongoing. Figure A4 (Appendix p. 18) contains bar plots with frequencies corresponding to the twenty most common words found in World Bank and IMF conditions.
words like “debt”, “arrears,” “tax,” and “bank” are common, reflecting the IMF’s demands for liberalization. Meanwhile, World Bank conditions require less costly actions involving “plan,” “framework”, and “management.” The World Bank commonly asks recipients of DPF loans to publish reports or evaluate projects instead of mandating fiscal cuts.

Conditions at the World Bank are relatively less burdensome when compared to the IMF, but this is not to say that World Bank conditions are unimportant. IMF conditions are simply relatively more stringent — so much that they can shape an incumbent’s political survival. Therefore, one potential explanation for the statistical insignificance of UNSC MEMBER in our models is that countries strategically apply their leverage across institutions; if we fail to observe a UNSC finding because countries are more interested in bargaining down their IMF conditions, we would expect to see UNSC MEMBER have a negative and significant effect on conditions in the 60 percent of DPF projects that do not coincide with an active IMF program. However, we find little evidence that this is the case, as the coefficient on UNSC is insignificant for observations with and without active IMF programs (Figures A2-A3 and Table A10 Appendix pp. 12-13). There are, of course, many reasons why behaviors in countries actively borrowing from the IMF may differ from those not actively borrowing, or why countries in crisis might be more likely to both borrow from the IMF and apply bargaining leverage (Dreher et al. 2013; Vreeland and Dreher 2014). Nevertheless, it does not appear that our null finding for UNSC membership results from horse-trading dynamics at the IMF displacing those at the World Bank.

In short, we find little evidence that preferential treatment for U.S. friends at the World Bank occurs because of state-to-state quid pro quos. Both state representative and staff perspectives from the World Bank, as revealed through interviews, corroborate this conclusion, as interviewees recalled no instance of asking or being asked, respectively, to dilute a loan’s conditions.\footnote{Interviews A, C.} We further consider whether bargaining was simply displaced by the
hard conditions asked of countries by the IMF. Although IMF conditions are relatively more stringent, we do not observe evidence consistent with a bargaining perspective.

Instead, we argue that U.S. friends receive fewer conditions due to staff-led dynamics. While none of the officials we interviewed believed World Bank staff would ever consciously seek to remove conditions, they did find it plausible that staff would try to expedite a loan for a preferred borrower, and in the process demand fewer prior actions. Simply, faster programs must require fewer policy changes. All of this happens when staff design DPFs that are favorable to U.S. interests but free from any actual interference from the U.S. government. Both principal-agent theories and organizational accounts could explain staff-led politicization; we outline each mechanism in turn.

The principal-agent account is that staff are sophisticated at anticipating and satisfying U.S. interests, and they do so consciously out of career concerns. The career concerns arise from the World Bank’s heavy financial dependence on its largest shareholder. In particular, the World Bank’s concessional lending arm IDA is financed through triennial replenishment meetings, where donors pledge contributions. Mindful of their vulnerability and wishing to signal their support for U.S. interests, World Bank staff consciously design programs that favor friends of the U.S., reserving their stringency for those countries out of its favor.

Conditionality is one tool used by World Bank staff to assuage U.S. concerns. A former acting U.S. Executive Director at the World Bank noted that “Congress takes an especially dim view of DPLs ... There is a general perception that they are ineffective tools. In some sense they allow you to buy reforms, but it’s often not clear what you’re getting.”

In particular, “Republicans tended to be concerned about financial accountability and whether we were wasting money, and Democrats tended to be concerned about the lack of safeguards and inadequate controls.” Either of these concerns can be addressed using conditions. Since the U.S. is more likely to check up on World Bank activity by looking at problematic countries

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Interview A.
rather than friends, we expect to see conditions concentrated in these cases.

A country’s voting distance from the U.S. not only proxies for shared policy views, but also plays a causal role in shaping U.S. preferences. In the legislative branch, U.S. Congress is annually briefed on how countries vote during important votes in the UN General Assembly. Congress mandated the briefings in 1983 in response to a Heritage Foundation study that found an undesirable negative correlation between votes with the U.S. and U.S. aid.\(^{34}\)

Countries’ voting records at the UN have since been used by legislators to guide U.S. foreign policy. As a 2016 U.S. Department of State report noted, “The Security Council and the General Assembly deal with a full spectrum of issues… that are considered critical to U.S. interests. A country’s behavior at the United Nations is always relevant to its bilateral relationship” (\textit{Voting Practices in the United Nations, 2016} 2017, 3). In contrast, although U.S. aid might reflect U.S. preferences, it is dominated by countries like Israel and Egypt, making it a noisier proxy for Bank staff to use to assess U.S. interests. Our lack of a statistically significant finding for U.S. aid is consistent with this.

Today, numerous legislative mandates prevent the U.S. Executive Director from supporting certain loans. Even when these loans are nevertheless approved (U.S. opposition to a DPL is insufficient to block it), they carry symbolic and material importance.\(^{35}\) As Daugirdas (2013, 531) notes, “The United States’ predetermined negative vote affected the kinds of loans that the Bank management brought... for approval.” World Bank staff certainly do not wish to elicit more of these constricting mandates, nor do they wish to jeopardize funding. They have ample reason to design programs that are sensitive to U.S. preferences.

World Bank staff plausibly have the motivation and sophistication necessary to anticipate and satisfy U.S. preferences in this way. One individual with experience in the U.S. Executive

\(^{34}\)See Section 17 of Public Law 98-164 (November 22, 1983). Also see Taylor (1991, 370) for a discussion of the Heritage Foundation’s impact on UN policy during this period, and Ruggie (1985) for an analysis of similar dynamics.

\(^{35}\)Interview A.
Director’s office noted, “They would be aware of legislative mandates in terms of how the U.S. has to vote on issues and countries, and Bank staff are sometimes contemptuous of U.S. Congress.” They may consider these factors when expediting a program or designing conditions. We stop short of believing that Bank staff are specifically considering UN voting records (in our interviewee’s words, “it’s hard to imagine them being that organized”), but we show that they possess both formal and informal ways to learn the U.S. preferences that follow from these votes and have the incentive to satisfy them.

So too can organizational dynamics account for our findings. Perhaps staff simply design more lenient programs for countries they view as more responsible, and their own beliefs about borrowers happen to align with U.S. preferences. In this account, UN voting records explain variation in conditions not because they point to countries that are politically preferred by the U.S. but because they assess countries through a lens used by U.S. and World Bank policymakers alike. World Bank staff members may hold these views either because of selection effects (U.S. citizens or educational backgrounds are more heavily represented on staff) or socialization effects (Bank staff interact frequently with U.S. officials). Either way, staff could be acting on their own economic beliefs rather than trying to curry favor with the U.S.; the result — policies that favor U.S. friends — is the same.

It is difficult to supply positive evidence for this mechanism through interviews, since biases are typically unconscious. In fact, the evidence that most supports this view is that all the officials we interviewed were surprised by our core finding and struggled to explain it. We mention this not to embarrass our qualified and thoughtful respondents but rather to underscore our point that the influence we observe must be either quite indirect or unconsciously wielded for it to escape the notice of staff.

In developing what “staff-led” politicization looks like, we have outlined two possible mechanisms, one which draws from principal-agent theories, and another from organizational

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36Interview B.
theories. We believe these mechanisms are compatible with each other, and our results cannot be entirely explained by one or the other. In Table A14 (Appendix p. 17), we control for each borrowing country’s neoliberal ideology score, as coded by Nelson (2017). Because Nelson’s data precedes our period of study, however, we can use only the average ideology value for each country, and we must exclude country fixed-effects from the model. UN VOTING remains positive and statistically significant, and LIBERAL IDEOLOGY similarly predicts conditions. We therefore suggest that both staff-led and ideological explanations may contribute to our findings. It is also possible that the two mechanisms interact, strengthening each other, but reliably testing this is beyond our data, and we leave it to future research.37

We therefore believe that both resource dependence and ideological culture contribute to the structural power the U.S. exercises at the World Bank. The U.S. can be confident that agents at the World Bank will please their principal both through its role as the largest financier and by the informal influence that results from the institution’s location. If culture or beliefs play a role, they do not undermine the importance of the principal-agent relationship that exists between the U.S. and its staff, but rather, they work in the same direction. Bureaucracies in IOs may behave autonomously, but they are not free of political influence.

5 Conclusion

World Bank conditions, like IMF conditions, heavily favor U.S. interests. Previous studies of politicization of World Bank conditionality have been necessarily indirect as a result of data limitations, but we leverage data that allow us to conduct direct tests. Unlike accounts of conditionality at the IMF, however, we believe politicization is staff-led, not state-led. We find no quantitative or interview evidence that international favor trading between borrowing states and the U.S. results in weaker conditions for strategically important states. Instead, we

Because the ideology measure is time-invariant, we are not confident that we could detect an interaction effect even if one exists.
argue that World Bank staff design programs that promote U.S. interests for both conscious and unconscious reasons — World Bank staff may consciously wish to please its largest financier and they may unconsciously share the biases of the principal with whom they engage the most. These two mechanisms are compatible and may even reinforce one another, allowing for politicization to occur even in autonomous institutions.

Our project builds on notions of informal influence in extant work. Stone (2011, 26) claims, “In ordinary times... shareholders have no compelling interest in intervening in the details of conditionality... Delegation is not costly for the principals because the agent’s type is known.” In investigating conditionality at the World Bank, we provide additional evidence for this claim, showing that agents hold interests so similar to those of their principals that there is little need for manipulation. Further, we suggest that informal American influence at the World Bank socializes agents to share its interests. While principal-agent and organizational accounts of IOs are typically viewed as competing, we see them as complementary. Future research should aim to more precisely parse these mechanisms not to attribute causality to one or the other but to better understand how they interact.

The subtle, preemptive, and pervasive dynamics of “principal pleasing” occur when one state or a few similar states have asymmetric influence over an institution’s activities. For states that occupy this role, principal pleasing can be an important source of structural power, as they need not expend bargaining leverage for an institution to advance its interests internationally. As the literature has focused extensively on U.S. dominance, we encourage future research to examine IOs where the U.S. is not the primary principal, such as the Chinese-led Asian Infrastructure Investment Bank.

At the same time, U.S. dominance at the World Bank may not continue indefinitely, as the U.S. commitment to multilateralism weakens. President Trump’s 2019 selection of David Malpass to head the World Bank did little to assuage concerns about U.S. retrenchment, as Malpass previously called for curbing U.S. contributions. One possibility is that World Bank staff search for an alternative patron to support their work. However, unless the U.S. yields
its positions of formal power over Bank activities, this seems unlikely to succeed. Rather, we expect these dynamics will further urge staff to design policies friendly to the U.S. to prevent it from withholding financial support, deepening U.S. influence.
References


**URL:** https://pdfs.semanticscholar.org/28ae/2da5b9a8fde19de0b78b82b1ea3b43c4de.pdf


URL: https://www.files.ethz.ch/isn/30242/1999-03.pdf


Figure 1: Total Development Policy Financing Disbursements 2005–2018.
Figure 2: Total Number of Prior Actions Applied by the World Bank Per Project Globally 2005–2018.
Figure 3: Average Number of World Bank Prior Actions Applied Per Project Annually 2005–2018.
Figure 4: World Clouds of U.S. Friend and Foe Conditions. Word clouds are generated with the Wordle application.
Figure 5: Proportion of Conditions Falling into Various Policy Categories 2005-2018.
Figure 6: World Clouds from IMF and World Bank Conditionality.
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***p < .01; **p < .05; *p < .1

Table 1: The Political Economy of World Bank Conditionality (Bivariate with No Imputation). The UN voting variable is lagged by one year. Robust standard errors are clustered at the country-level.
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<th>Variable</th>
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***p < .01; **p < .05; *p < .1

Table 2: The Political Economy of World Bank Conditionality (Full Controls with Imputation). All independent variables lagged by one year. Missing variables are imputed by multiple imputation. Robust standard errors are clustered at the country-level.