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Do the G5 countries use World Bank Trade Conditionality to promote Trade?

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Abstract

In this paper we investigate whether the design of World Bank conditionality, namely the extent of trade liberalization conditions, is influenced by commercial motives of the Bank's five major shareholders. Using a newly available dataset on World Bank conditionality we analyze the conditionality design of more than 870 projects over the 1981 – 2010 period. Our results suggest that countries of commercial interest to Germany have on average more trade liberalization conditions attached to their loans, indicating a trade promotion strategy. For the US, on the other hand, our results show that trading partners receive significantly fewer trade conditions. This suggests protection of the own bilateral trading relations from competition that would arise in the case of more open markets.

JEL classification: F33, O19, O24

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I. INTRODUCTION

Developing countries around the world turn towards the World Bank – the main actor in terms of multilateral development lending – for financial and technical support. One of the Bank’s central instruments are development policy operations. These are fast disbursed credits, loans or grants intended to support a recipient’s medium term reform program. A special feature about development policy operations is that they should only be disbursed after the implementation of conditions previously agreed on. According to the World Bank (2005), these conditions are meant to contribute to achieving the development objectives of the recipient country and to improve the recipient’s economic situation thereby reducing the default risk the World Bank would have to bear. However, this concept is also heavily criticized. One main issue is the implicit assumption that the Bank has superior knowledge of a country’s needs compared to the country’s government (Collier *et al.* 1997). Moreover, conditions need to be implemented to be effective (Koeberle 2003). A third criticism is that conditions can be interpreted as instruments of paternalism with which the Bank can enforce its ideas of an optimal policy design even against the will of the recipient country. This argument becomes even stronger when the conditions’ design does not follow objective criteria but is influenced by the interest of main actors within the Bank.

As we discuss in section III many studies on the World Bank show that loan decisions are partly influenced by these particular interests, especially the interests of the United States (e.g., Fleck and Kilby 2006, Dreher *et al.* 2009, Kilby 2009). Regarding the International Monetary Fund (IMF), which is similar to the World Bank in its organizational design, studies reveal that the number and extent of conditions are influenced by geo-strategic considerations as well (e.g., Dreher and Jensen 2007, Copelovitch 2010). So far, the literature has mainly focused on a preferential treatment of allies of the donors with respect to the lending decision, lending amount and the number of conditions without a direct benefit for the donor. Only Copelovitch (2010) investigates the commercial interests of the donors in the recipient country which leads to a different treatment of the recipient yielding direct benefits to the donor. We take this approach one step further and investigate to what extent the five major shareholders of the World Bank (G5) – the United States, the United Kingdom, Japan, Germany and France – use their position to extract direct trade benefits by influencing the design of

conditionality. In contrast to the previous literature, we do not focus on the overall number of conditions but on the number of a specific sub-group of conditions, namely conditions on trade liberalization. As bilateral donors follow commercial interest to a certain extent in their decision to allocate aid (see, e.g., Alesina and Dollar 2003, Younas 2008, Höffler and Outram 2011) we argue that it is very likely that they also try to use their influence in the World Bank to promote their commercial interests in terms of conditions favorable to them. Though it might be harder to influence the specific design of conditionality – and not only the extent of conditionality proxied by the number of conditions – as conditions are developed in general by the staff in accordance with the recipient government, it is even more attractive as it offers the possibility to influence a country’s policy design given that conditions are actually implemented (Koeberle 2004). As the five main shareholders provide around 40% of the Bank’s higher-level staff (World Bank 2012a) their preferences can be represented already during the negotiation process. We argue that this is especially attractive with respect to trade liberalization as it has direct effects on the donors’ trading sector. In section IV we will discuss different possible strategies a donor might pursue with respect to trade conditions at the World Bank and develop our hypotheses for each of the five donors we study.

We use a newly available dataset on World Bank conditionality³ that covers more than 1100 development policy lending projects over the 1980-2011 period to analyze whether the main shareholders use their power to influence the design of conditionality, thus fostering their commercial interests. We find evidence (presented in section VI) that Germany exerts influence to support its trade links by an increased number of trade liberalization conditions attached to loans of their trading partners. On the other hand, for the United States we find a significantly negative relationship between bilateral trade and trade conditions. This suggests a strategy of protecting US traders from increased competition by preventing a liberalization of the relevant markets. For the United Kingdom, France and Japan we cannot identify a robust relationship between their bilateral trade and the extent of trade conditionality. We discuss the implications of these findings and possible consequences in section VII.

³ World Bank Development Policy Action Database, <http://go.worldbank.org/EB6880IVH0>, accessed on 02/07/2013.

II. WORLD BANK CONDITIONALITY

When the IMF and the World Bank were established in 1944, conditionality was not an explicit part of their lending operations (Dreher 2004). Today, however, both the IMF and the World Bank attach conditions to their structural adjustment lending. These conditions are requirements the recipient country has to fulfill in order to receive financial assistance from the organization. In the early years, conditions attached to IMF lending were much more numerous than to World Bank lending (Dreher 2004). With the creation of adjustment lending programs in the Bank in the early 1980s, the situation changed and conditions became more important for its interventions, exceeding the number of conditions in IMF programs on average. However, since the 1990s the number of conditions attached to the Bank's development policy lending has steadily decreased (see Figure 1).

According to the World Bank, conditions were mainly focused on resolving short-term economic imbalances in the 1980s and 1990s, whereas today they are mainly a means to induce medium-term institutional changes much more reflecting the interests of the recipient's governments (World Bank 2005). Conditions apply to eleven different themes⁴ and two general groups: prior actions and benchmarks. Prior actions are those conditions that have to be fulfilled before i) Board approval in the case of a single-tranche lending and ii) the release of the next tranche in case of multi-tranche operations. Regarding ii) the conditions for the next tranches are already included in the project proposal. If a country fails to comply with certain conditions, the following tranche will only be disbursed if the Board decides to waive them. On the other hand, benchmarks are literally no conditions because non-compliance does not automatically lead to a freeze in disbursements. Benchmarks can be seen as stepping-stones that reflect improvements towards a bigger institutional or policy change, e.g., conducting a study on export facilitation and setting up a plan of action accordingly.

The World Bank offers two main reasons why conditions are necessary, both for supporting development as well as due to its banking function (World Bank 2005). First, the assistance provided by the Bank should contribute to the development objectives of the recipient country. By using

⁴ Economic management; public sector governance, rule of law; financial and private sector development; trade and integration; social protection and risk management; social development, gender and inclusion; human development; urban development; rural development; environment and natural resource management (World Bank 2012b).

conditions as criteria for the credit disbursement, positive outcomes shall be ensured. Second, conditions are meant to help ensure that the resources will be used in the intended way as the World Bank is accountable to the financiers it borrows money from. According to the *Operation Policy for Development Policy Lending*⁵ the Bank provides lending only for countries that maintain an adequate macroeconomic policy framework. However it is up to the World Bank to decide whether this adequacy is achieved.

Since the beginning of its usage, conditionality has often come under attack. Some critics interpret conditions as instruments of paternalism with which the Bank can enforce its ideas of an optimal policy design against the will of the recipient country. Furthermore, conditions imply the assumption that the Bank has a superior knowledge of a country's needs than the country's government itself (Collier *et al.* 1997). On the other hand, if conditionality is an effective measure to foster development and reform, one can criticize that the implementation of conditions is not effectively enforced. Dreher (2004) argues that staff members do not have any incentive to strictly review whether conditions have been met as they are under pressure to hand out the allocated budget share to "their" region. Consequently, it is not in their interest to negotiate stringent criteria and few projects have ever been canceled due to non-compliance with the negotiated conditions. Svensson (2003) studies about 200 structural lending agreements and does not find evidence for a relationship between a recipient government's compliance and the disbursement of the loan. In the case of the International Development Association (IDA), lending and conditions can fall prey to the Samaritan's dilemma in addition. The IDA is the organizational part of the World Bank Group that focuses its lending activities on the poorest countries (GNI p.c. < 1,195 USD in 2013) and some countries above this cut-off that lack the creditworthiness to obtain money via the other borrowing institution of the World Bank, the International Bank for Reconstruction and Development (IBRD). The receiving countries of IDA lending are perceived to be in such a need that due to "moral" reasons it does not seem adequate to cancel a project even if the recipient does not comply. Still, Kilby (2009) finds evidence that poor macroeconomic performance and a lack of conditionality enforcement leads to lower loan disbursements only if a country is no political friend to the United States. Stone (2004)

⁵ OP 8.60 Development Policy Lending, <http://go.worldbank.org/N3Y839UBH0>, accessed on 09/21/2012.

analyzes the performance of IMF conditionality in Africa to evaluate why there is no progress observed in the development of African countries despite the continuous engagement of the IMF. He studies whether the design of the conditions is inappropriate or whether conditions are not sufficiently enforced and concludes that the problem lies with enforcement. Stone shows that the duration of punishment after failing to comply with conditionality rather depends on the importance of the respective country to the major donors than on the quality of economic indicators. While conditionality in World Bank operations is the main focus of our analysis, it has to be embedded into the larger area of aid allocation in general. Therefore, the next section reviews the literature addressing political and economic factors that influence the allocation of aid.

III. POLITICAL ECONOMY OF AID ALLOCATION AND CONDITIONALITY

The literature on the political economy of aid allocation suggests that development aid is not as altruistic as one might hope. Though some countries – especially the Nordic ones – seem to allocate aid primarily based on aspects of need and merit, other countries like the United States, France, and Japan also consider factors such as geo-political interests, colonial pasts and commercial interests (Alesina and Dollar 2000, Younas 2008). Aid allocation based on commercial interests is appealing due to the possibility to intensify the commercial relationship between the donor and the recipient country. One possible way to make this work is via the allocation of tied aid where the recipient country has to consume products or services produced in the donor country. Another well-studied example is the allocation of aid towards importers of the donor's products. This should intensify the trade relationship between the two countries due to preferential behavior by the recipient country (Younas 2008). For example, countries that import capital goods – the main export goods of donors organized within the OECD's Development Assistance Committee (DAC) – receive significantly more aid from these donors. However, there is no effect for imports of other goods on DAC aid allocation. Berthélemy (2006) obtains similar findings when analyzing the influence of trade patterns – the sum of imports and exports as a share of the donors' GDP – on aid allocation of seventeen DAC donors. With the exception of Switzerland, he finds a significantly positive relationship for all donors.

Likewise Dreher *et al.* (2013) find a significant influence of trade ties, measured as exports to the recipient country, for Germany's bilateral aid allocation.

Intuitively, aid allocation through multilateral channels – where the influence of single donors is restricted (Rodrik 1995) – might lead to a more need-oriented allocation of aid (Maizels and Nissanke 1984). However, several studies have shown that donors retain sufficient influence within multilateral organizations to achieve decisions favorable to their interests (e.g., Frey and Schneider 1986, Dreher 2004, Copelovitch 2010). The influence of the United States is a widely studied example, especially their geo-strategic interests measured by voting behavior of recipient countries in the UN General Assembly (UNGA) or temporary membership on the UN Security Council (e.g., Andersen 2006, Kuziemko and Werker 2006, Kilby 2009). And commercial interests play an important role, too.

Fleck and Kilby (2006) analyze US-influence on the World Bank's lending decisions. According to their results an increase in the share of US exports to a recipient country by one standard deviation leads to an increase in monetary assistance from the Bank of more than one percent. The same holds true for US bilateral aid and investment flows. Thus, both have a positive influence on World Bank decisions. Copelovitch (2010) analyzes the common interests of the G5 countries (USA, Japan, Germany, France, UK) with respect to their influence on IMF lending decisions. Countries with a high involvement of G5 banks in their financial sector receive, on average, higher loans from the IMF. However, if the commercial interests of the G5 are heterogeneous, i.e., the Bank's involvement is not equally high for all G5 countries, lending is reduced. Copelovitch argues that with heterogeneous commercial interests among the main shareholders, the role of the IMF staff becomes more important. There is also evidence for non-permanent members of the World Bank's Executive Board exerting influence. According to Kaja and Werker (2010), the Bank's funding of developing countries doubles on average while these countries serve as members of the International Bank for Reconstruction and Development's board. Morrison (2013) studies borrowers' influence on IDA lending during their temporary membership on the Executive Board. While those countries received significantly more IDA funds than non-Board members during the Cold War, the difference is no

longer significant after 1990. Morrison explains this development with the increased importance of the internal policy rating that determines the allocation of IDA funds and improves its transparency.

A second aspect, apart from the amount of aid allocated, where donors can exert influence through multilateral organizations is the design of conditionality. As information on conditions was not as easily available as on lending amounts, the number of studies on this issue is smaller. Especially for the World Bank, information on loan conditions have become available only recently. Nevertheless, the studies conducted so far on IMF conditionality, where the organization and decision structure is comparable to the World Bank, reveal that donors influence the design of conditions as well. In the existing studies, the focus has rather been on geo-strategic than on commercial interests. Dreher and Jensen (2007) provide evidence that US-interests alter the extent of IMF conditionality. Allies of the United States, as measured by their voting behavior in the UNGA, receive loans with, on average, fewer conditions than other countries. Furthermore, friends of the United States face lower conditionality right before democratic elections. But, not only the number of conditions is affected by being closely aligned to the United States. Stone (2008) splits conditions into the different themes they cover. He finds that countries strongly supported by the United States, measured by US bilateral aid, are more likely to receive IMF loans and conditions in fewer sectors.

Apparently, the scope of US-interest in a country affects the recipient in three ways. First, it is more likely to receive a loan. Second, fewer conditions are attached to the loan. And, third, these conditions are more narrowly focused in the sense that government action in fewer categories is required. The United States are, however, not the only country influencing IMF decisions. The other four permanent members of the Board exert influence as well. Copelovitch (2010) finds that, in addition to higher loans, a country that is of political interest to the G5 will receive fewer conditions even if interests of the G5 members are heterogeneous. To some extent, this finding indicates logrolling behavior – a tit-for-tat where benefits for allies of another G5 country are granted with the expectation of a reciprocal treatment of one's own allies in the future. With respect to commercial interests, he does not find any evidence for strategic influence to reduce the extent of conditionality. However, Gould (2003) provides evidence that private financiers are able to influence the Fund's conditionality because the IMF does to some extent depend on their money as an additional source of

capital within loan agreements. These results show that, to a certain degree, loan decisions and conditionality are influenced by the geo-strategic and commercial interests of the IMF's and the World Bank's main shareholders.

As conditions are negotiated as part of the loan contract between the international organization and the recipient country, preferences of the recipient country play a role as well. Vreeland (2000) argues that IMF conditionality can be used as a scapegoat by the recipients' governments to implement unpopular reforms. By including these reforms in the loan conditions, the executives can blame the IMF or the World Bank for the reform and thus reduces their reelection risk. For the IMF, Caraway *et al.* (2012) show that domestic preferences have an influence on the design of labor market conditions. Countries where the labor movement is stronger and better organized will have less demanding labor conditions attached to their IMF loans. The authors argue that the government will negotiate in line with the labor organizations to prevent domestic resistance from unsatisfied workers. Our study is somewhat similar to Caraway *et al.* (2012) as we also analyze a subset of conditions, yet we focus on the influence of the G5 on these conditions.

IV. G5 INTERESTS AND TRADE CONDITIONS – THE HYPOTHESES

As shown in the previous section, empirical research on conditionality is scarce. For the World Bank, to the best of our knowledge, there exists no study evaluating the political economy of conditionality based on a large dataset. Yet, it seems to be an important playground for strategic interests as it offers the possibility to impact a country's policy-making. Especially the design of prior actions, which should be more likely to be implemented, should be of interest to the donors. However, conditions are negotiated before the Board approves the loan. In case of prior actions for one-tranche-only-projects, prior actions have to be fulfilled before the loan is approved. This implies that the Executive Board might only have a small influence on the conditions. Supposedly, most influence should be exerted during the negotiating process. It is not clear to what extent the Executive Directors might be able to put pressure on this process. For the IMF – most likely, this is similar for the World Bank – Copelovitch (2010) argues that the staff takes the preferences of the Executive Directors into account during the planning stage to ensure that the loan proposal will be approved by the Board. In addition,

Kilby (2013) shows that the US exerts indirect influence on post-approval decisions that cannot be influenced directly by the Executive Board. The major shareholders, especially the US, have a dominant position with respect to the institution's higher staff. The share of US higher staff was 24.6 percent in 2010 (World Bank 2012). The other main shareholders are also well-represented and provide another 15 percent of the higher staff (World Bank 2012). Given this degree of representation of the G5 both in the final decision-making body, the Executive Board, and among the staff it is not unlikely that conditionality is influenced according to their preferences.

One thematic category of conditions appears to be especially attractive for strategic intervention: trade liberalization. Trade as a commercial motive is, in general, a decisive factor for aid allocation (e.g., Alesina and Dollar 2000, Younas 2008). Apart from the United States, especially Japan and France seem to allocate bilateral aid towards countries they have strong trade relations with (Canavire *et al.* 2006, Younas 2008) – but also Germany with its strong export sector is likely prone to favor its trade sector (Dreher *et al.* 2013). For the United States, this relationship even appears to be a prime motive to provide foreign assistance (Tarnoff and Lawson 2009). If trade promotion is used as an argument to justify bilateral foreign aid towards the taxpayer,⁶ it seems plausible that countries try to apply this strategy for multilateral aid as well. In many countries, the export sector is a major pillar of the economy. Politicians have an interest in promoting this sector, firstly to promote economic growth and secondly, to gain support for future elections. As conditions are a crucial part of World Bank lending and recipient countries are, at least officially, obliged to implement these conditions to receive further loans, it seems probable that governments try to affect the design of trade conditions attached to World Bank loans.

There are in general three strategies a country might pursue when influencing trade conditions: trade intensification, trade creation and trade protection. The first applies to recipient countries the donor already has a trade relationship established with. To intensify this relationship, donors try to augment the trade liberalization efforts of the recipient country by negotiating for more trade liberalization conditions. In the second case, the donor wants to establish new trade routes. Markets

⁶ The Republican presidential candidate Mitt Romney, when presenting his strategy for foreign policy and development cooperation in September 2012, was even more outspoken on this topic. He stated that aid should be used as a reward for countries that remove trade and investment barriers. The Washington Times, <http://www.washingtontimes.com/news/2012/sep/25/romney-takes-aim-foreign-aid/>, accessed on 9/25/2012.

that protected themselves with trade restrictions from foreign competitors are forced to liberalize to open up new trading possibilities for domestic enterprises. Donors thus push for more trade liberalization in those countries where trade relations are not established yet. The third strategy, trade protection, occurs when a country already has established trade linkages and fears the competition of other actors. In this case the donor tries to prevent trade liberalization.

We assume that these strategies apply differently to the G5 countries. First, we can divide the group of five into, generally speaking, the colonizers (France and the United Kingdom) and the non-colonizers (Germany, Japan and the United States of America) with respect to the post 1945 period.⁷ The “colonizers” have well established trading routes to their former colonies. These relationships are supported by preferred customs regulations, common language and to some extent a common currency.⁸ In 1980, the beginning of our sample period, the share of France’s trade with its former colonies was around 36.7% with respect to countries eligible for WB lending and about 19.2% for the UK. Then again, both nations are in general not famous for extensive international trade. Therefore, we suppose that these two countries have a lower interest in stimulating trade via World Bank conditions beyond the already established trading routes.

Germany and Japan, on the other hand, are countries that base their economic growth to a large extent on their export sector. For Germany a report of the Federal Ministry for Economic Cooperation and Development in 1980 explicitly states that Germany is an export-led economy that aims for trade liberalization and views trade as an important part of a country’s development (Deutscher Bundestag 1980). In addition, annual reports by this Ministry to the parliament include information on the positive effect of development cooperation on Germany’s exports and domestic job creation (Deutscher Bundestag 1980, 1983). This underlines the importance of trade promotion as a by-product of bilateral aid for Germany. In contrast, Japan does not have a separate Ministry for Development Cooperation. Instead, multiple Ministries and agencies are responsible for the aid allocation (Nikitina and Furuoka 2008). One of these Ministries is the Ministry of International Trade

⁷ We are aware that the countries of the non-colonizer group have had some colonies as well. However, first, these colonies refer to a time before World War II, a time when trade was not yet so intense and second, the number of colonies and the post-colonial ties are much lower than for the two countries categorized in the colonizer group.

⁸ Most of the former French colonies in Sub-Sahara Africa joined a currency union with their money pegged to the French Franc reducing transaction costs.

and Industry. According to Hirata (1998), this Ministry has intensively influenced aid allocation during the 1960s and 1970s with the aim of increasing Japanese international trade. Given this importance of exports in combination with foreign aid, we assume that both countries follow a trade intensification and/or trade creation strategy with respect to World Bank conditions.

Lastly, for the United States imports dominate its exports. Nevertheless they also follow a trade-promotion strategy connected to their foreign aid strategy. One institution of the US development cooperation is the United States Trade and Development Agency (USTDA). The USTDA finances projects abroad with the aim to strengthen the recipient's as well as the United States' economy by providing orders for US enterprises and exporters related to these projects. The agency states that one of the project selection criteria apart from "hav[ing] the potential to generate significant exports of U.S. goods and services"⁹ is competition of other foreign companies on the recipients' market (USTDA 2005). According to the agency two categories of projects exist where one includes the "...establishment of [...] trade agreements, market liberalization." Hence, USTDA does not only help US companies to receive orders from abroad, the agency also helps US enterprises to compete against foreign competitors by, e.g., reducing trade barriers for US products. In this sense, USTDA reports a success story for 2011 where it "[...] awarded a \$660,000 grant to the China State Grid Electric Power Research Institute in support of opening China's market for U.S. clean energy technologies."¹⁰ Here, the US fosters a trade promotion strategy for a narrow field in which it has identified significant market potential for their enterprises and creates US-specific market entry possibilities. Therefore, we assume that in the multilateral sphere of the World Bank, the US follows a trade protection strategy to not endanger bilaterally negotiated advantages by opening the market to all competitors.

V. ECONOMETRIC MODEL AND DATA

We test our hypotheses by estimating a reduced-form econometric model including our variables of interest and several control variables that we take from the literature. The unit of observation is each

⁹ See US government's information on USTDA <http://www.allgov.com/departments/independent-agencies/united-states-trade-and-development-agency-ustda?agencyid=7282>

¹⁰ See footnote 9.

single lending decision.¹¹ The number of trade liberalization conditions is our dependent variable to identify the importance and extent of trade liberalization conditions in World Bank projects. To obtain this measure, we have reviewed the conditionality descriptions available in the Policy Action Database (World Bank 2012b). This database contains the prior actions and benchmark conditions for 1105 projects approved between 1980 and 2011. Around 70% of the conditions are prior actions while the remaining 30% are benchmarks. We coded a condition as a trade liberalization condition if the condition's theme is grouped under "Trade and Integration"¹² and the corresponding text includes specific trade liberalization requisites. A prior action condition that we coded as trade liberalization condition reads, e.g., "Eliminate all import licensing for consumer goods, to be phased with tariff reforms" (Philippines, 1981) or "Eliminate export and import bans and licensing for agricultural products" (Romania, 1997). A benchmark condition that we coded as trade liberalization condition reads, e.g., "Implement properly trade policy reform" (Indonesia, 1991). A condition that we did not code as trade liberalization conditions reads, e.g., "Review import controls still remaining on luxury goods" (Burundi, 1986). We exclude such conditions from our dataset since they do not imply specific measures the recipient's government has to implement.

Dreher and Jensen (2007) note that it is difficult to measure the degree of intrusiveness of conditionality. Hence we follow other studies that use the number of conditions as a proxy for their stringency (Mosley *et al.* 1991), their causes (Gould 2003, Dreher 2004) and their extent (Ivanova *et al.* 2005). On average, a project contains approximately 34 conditions, whereas the maximum lies at a stunning 195 conditions for a loan for reforms in the agricultural sector in Morocco approved in 1988. On average, two conditions of a project are trade conditions. However, more than half of the projects do not include trade conditions (672 projects) which increases the average number of trade conditions in projects with trade conditions to five. The extent of trade conditions does largely depend on the project sector. Apparently, the average number of trade conditions is much lower in social service projects (0.1) than in industry projects (6.8). Furthermore, the intensity of trade conditions in the projects has experienced a sharp decrease since the mid-1990s. Figures 1 and 2 provide an overview of

¹¹ Therefore, we do not have a panel dataset and cannot apply panel estimation methods.

¹² This grouping includes: export development and competitiveness, international financial architecture, regional integration, technology diffusion, trade facilitation and market access or other trade and integration.

the average number of general conditions and trade liberalization conditions over the sample period. Figure 3 further visualizes the sectoral distribution of the projects analyzed.

Independent Variables

The set of independent variables is itself comprised of four subsets. The first set, comprised of general control variables, includes GDP per capita, inflation, the current account balance, being under an IMF program and the total number of project conditions. GDP per capita has been found to have a negative or insignificant influence on IMF conditions (Steinwand and Stone 2008, Caraway *et al.* 2012) and on World Bank lending decisions (Frey and Schneider 1986, Andersen *et al.* 2006). In our context we expect a negative correlation as richer countries are usually in a better bargaining situation when it comes to the negotiation of conditions. We include inflation¹³ as an indicator for economic instability and thus the need for economic reforms. We expect a higher inflation rate prior to the arrangement to trigger a higher number of conditions included in an agreement. Trade liberalization might be used as a means to bring monetary policy under control. According to Romer (1993), deflation is costlier in open economies and politicians will therefore act more responsibly. Inflation is also a sign of economic instability whereas trade liberalization can be a means to increase growth and stability of the economy. Another control variable that has been found to be significant with respect to IMF conditionality is the ratio of current account to GDP (Dreher *et al.* 2009). Since more balanced trade is usually considered to be favorable for the economic situation of a country, a higher imbalance should trigger the inclusion of more trade conditions as well. The data on GDP per capita, current account to GDP ratios and inflation are taken from the World Bank's World Development Indicators (World Bank 2012c). We also include the number of total conditions excluding trade conditions, since it is more likely that a project that features more conditions also includes (more) trade conditions. Additionally being under an IMF program should control for the fact that trade liberalization might already be demanded within the IMF agreement and thus might reduce these conditions in the World Bank program. This information is taken from Dreher (2006) and the IMF's annual reports.

¹³ We transform inflation to reduce the impact of outliers following Dreher *et al.* (2008): $((\text{Consumer Price Index}/100)/(1+(\text{Consumer Price Index}/100)))$.

The second set of control variables accounts for the recipient's trade openness. The most widely used indicator for trade openness is the ratio of total trade to GDP (e.g., Fleck and Kilby 2006, Andersen *et al.* 2006, Dreher *et al.* 2009). We expect fewer trade conditions to be included in the projects if a country is already relatively open to trade. We also control for specific trade openness to the G5 countries by including dummies for a regional trade agreement (RTA) with the US, Japan and the EU countries. Furthermore, a dummy indicating a recipient's membership in the GATT/WTO is included. The data for trade openness are taken from the World Bank's World Development Indicators (World Bank 2012c) whereas the data on RTAs are taken from CEPII's gravity dataset (CEPII 2013) as well as the WTOs RTA Databank (WTO 2013a); the GATT/WTO membership is from the WTO (2013b, 2013c). We include the number of World Bank trade conditions in earlier agreements as an additional control for previous reform behavior. To create this variable we sum up all trade conditions attached to programs until the year before the new loan is approved.

The third set of variables controls for the recipients' incentives towards the inclusion of trade liberalization conditions. It includes the legislative competitiveness and a dummy for legislative elections. Given that trade liberalization might encounter resistance with the incumbents' domestic opposition or voters, introducing these reforms within the framework of World Bank conditionality might be preferred. The more veto players exist regarding domestic legislation, the more difficult it becomes to implement controversial reforms and the more likely it renders a country to use the World Bank as a scapegoat for the implementation (Vreeland 2004). The second measure, legislative elections, controls for the government's willingness to reform. Costly reforms are more likely to be implemented shortly after an election as the reelection risk is smaller due to the long time period until the next elections take place. The control variables for recipient interests are provided by the Database of Political Institutions (Beck *et al.* 2001).

In terms of geopolitics, our fourth set of variables, we use a country's voting behavior in the United Nations General Assembly (UNGA) to measure how closely it is allied with the G5 countries. Closer allies to these countries have been found to be rewarded with fewer conditions attached to IMF loans (e.g., Andersen *et al.* 2006). Since however, this is the effect on total conditionality, it may not apply in the context of trade liberalization holding the total number of conditions constant. In addition,

we control for temporary membership on the UN Security Council (UNSC) as this has been found to be a relevant geo-strategic interest variable as well (Dreher *et al.* 2009 and 2013).

Lastly, our main variables of interest that measure the commercial interests of the G5 countries are the total bilateral trade flows (constant USD in logs) between the recipient and the respective donor countries. These data have been taken from the World Integrated Trade System's (WITS) database which itself comes from the United Nation's Comtrade database (World Bank 2013).

Estimation Strategy

Our basic econometric model reads as follows:

$$(1) \text{tradeconditions}_{l,i,t} = \alpha + \beta_1 \ln(\text{trade})_{j,i,t-1} + \beta_2 \text{controls}_{i,t-1} + \beta_3 \text{trade openness}_{i,t-1} + \beta_4 \text{recipient}_{i,t-1} + \beta_5 \text{geostrategic}_{j,i,t-1} + \text{trend} + \omega_k + \varphi_i + \varepsilon_{i,t}$$

where $\text{tradeconditions}_{l,i,t}$ is the number of trade conditions attached to a loan l country i received in year t , $\ln(\text{trade})_{j,i,t-1}$ is the logarithm of ex- and imports of j , where j represents the individual G5 countries, with country i receiving the loan. $\text{Geostrategic}_{i,t-1}$ refers to the afore-mentioned geo-strategic indicators, namely UNGA voting and UNSC membership. $\text{Recipient}_{i,t-1}$ is a vector of the variables measuring the recipients' behavior and $x_{i,t-1}$ is the vector of general control variables as described above. All control variables with exception of the total number of conditions of the project and UNSC¹⁴ are lagged by one year to account for the fact that the negotiations probably take some time. We add a time trend (*trend*) to catch the overall development of trade conditionality over time. We include a fixed effect ω_k for the sector¹⁵ the project is embedded in and for the recipient country (φ_i). Finally, $\varepsilon_{i,t}$ is an error term that we cluster by recipient countries, assuming that within-country errors are not independent of each other.

We perform OLS regressions as a benchmark, fully aware that the mass point at zero (as well as other violations of the Gauss-Markov assumptions) renders the estimates inconsistent and inefficient. Though the count nature of our dependent variable gives rise to a Poisson estimator, our data do not fulfill its very strong assumptions of a conditional mean that is equal to the conditional

¹⁴ UNSC membership is not lagged as the election of the new members on the UNSC already takes place in the year before entering the council thus the information is already available.

¹⁵ A project may be embedded in different sectors, see Appendix 1 for a list. We assigned the agreement to the sector that was identified as the major sector within the project information.

variance (Cameron and Trivedi 2009). Hence, to correct for the apparent overdispersion, we perform Negative Binomial regression as suggested in Hilbe (2007) and used, e.g., in Caraway *et al.* (2012).¹⁶ As we present in our results section, the zero-inflation of the data still leads to a slight discrepancy between the number of observed zero-counts and the number of zeros predicted.¹⁷ Therefore we will further use the Poisson Pseudo-Maximum-Likelihood (PPML) estimator as robustness check (Santos Silva and Tenreyro 2006). The PPML estimator is widely used in the trade literature due to its good performance even if a high portion of zeros is observed in the dependent variable.¹⁸

VI. ESTIMATION RESULTS

We begin our analysis by a step-wise inclusion of our different sets of control variables. Table 1 presents the respective results for the OLS and Negative Binomial estimations. Due to the previously described shortcomings of the OLS estimator, our interpretation will focus on the Negative Binomial results in the following. The first model only includes the set of general economic and trade openness control variables. None of the economic control variables has a significant and robust effect on the number of trade conditions. As we argued before, these economic conditions might matter only for the overall number of conditions attached to a loan and not specifically for trade conditions. However, the trade openness measures also appear to be less relevant than expected. Though it is surprising that trade openness has no significant effect as it proxies a country's general trade openness well, it might be a too general measure for the very sector specific liberalization conditions. Regional trade agreements turn out to be relevant only if partnered by the US and then significantly reduce the number of liberalization conditions. If a country had a free trade agreement one year prior to the loan, the expected number of trade conditions decreases by approximately 60%. For an average of two trade

¹⁶ As a robustness check, we also performed Poisson estimations (results not reported here but available upon request) where the results stayed basically the same.

¹⁷ Figure 4 shows a comparison of the deviation between the predicted and observed values for Poisson and Negative Binomial estimations. While the Negative Binomial prediction is better for very small values (<4) compared to the Poisson predictions, the predictions of both models become very similar afterwards. Plotting the counts predicted by the model against the observed counts reveals that the zero-inflation apparent in the Poisson model vanishes when using Negative Binomial regression. Therefore, we stick to the Negative Binomial model for further estimations and also decided not to use a zero inflated model.

¹⁸ Martin and Pham (2008) argue that the PPML is less accurate if the zeros are generated by a two-step Heckman selection or a Tobit truncation process. However we believe that the zeros in our dataset are true ones, in the sense that they do not result from a process that is different to the one that generates the count. The PPML is therefore adequate for the nature of our data. Nevertheless we also tested a two-step sample selection approach assuming that the process generating a count > 0 was independent from the process generating the number of counts. The second stage, using only positive counts, confirmed our findings.

conditions, this implies a decrease of more than one condition. In addition, a loan's total number of conditions and the number of prior trade conditions turn out to have a significant effect on the dependent variable. On average, for a one unit increase in the number of total conditions the expected number of trade conditions increases by approximately 1%. This effect is statistically significant at the one percent level. Furthermore, countries that had to fulfill more trade liberalization conditions in the past have less new trade conditions attached to their loan. A one unit increase in the number of prior trade liberalization conditions decreases the expected number of trade conditions by approximately 2.5%.

In the second model, we include the index of legislative constraints and the dummy for legislative elections to control for the recipients' interests in implementing trade liberalization reforms. None of the controls for the recipient's interest is statistically significant at conventional levels and their inclusion has no effect on the economic variables. In the next step, we include the bilateral trade variables which are our main variables of interest. By including the bilateral trade of all five main shareholders simultaneously we ensure to capture only the effect of each donor and not implicitly the effect of another donor with a similar trade pattern. The bilateral trade patterns of the United States and Germany seem to have a significant effect on the number of trade conditions. While the coefficient is significantly positive for Germany, it is negative for the US. This implies that countries that trade a lot with Germany face on average more trade liberalization conditions. Specifically, an increase of German bilateral trade by one log point is correlated with an increase in the number of trade conditions by 126% on average [$\exp(0.818)-1$]. Accordingly, an increase of German bilateral trade by 50% would increase the number of trade liberalization conditions by one. This suggests a German trade intensification strategy. A look at the marginal effect of German trade on the number of conditions over the deciles of German trade (figure 5) shows that the effect is most pronounced around the median where trade is already established but can still be intensified. For the United States and the United Kingdom¹⁹ on the other hand the negative coefficient indicates that recipients who trade more with these countries face, on average, a smaller number of trade liberalization conditions

¹⁹ In our preferred Negative Binomial specification, the coefficients for UK trade are not significantly different from zero at conventional levels. However, in the OLS, Poisson and PPML estimations they are.

attached to their loans. For the US the effect of a one log point increase of trade on the number of trade conditions is -43%, i.e. an increase in trade by 50% would decrease the average number of liberalization conditions by 0.63. When analyzing the effect over the different trade deciles of the US (figure 6), the marginal effect is not positive at the lower end of the trade distribution.²⁰ Thus, the negative effect does not reflect the intent to open-up new markets, as one might have expected.

Two interpretations are possible for the significantly negative coefficient in the medium to higher trade intensity area. First, it is possible that the need for further trade liberalization is lower as an already profound level of trade can be observed. However this interpretation seems to be weak as we control for the general level of trade openness. The second possible explanation is protection of the own trading routes and thus prevention of additional trade competition in the recipient country due to liberalization. To see whether this result can indeed be attributed to the bilateral relationship and is not driven by a similarity of trade flows with geo-strategic interests, we include UNGA voting behavior and a dummy for UNSC membership in the final specification of table 1. Our results are robust to the inclusion of these additional variables. Furthermore, geo-strategic interests do not seem to play a role for the extent of trade liberalization attached to a loan.

In the previous model we have analyzed all conditions independently of their character (prior action or benchmark) and the financier (IBRD or IDA). Yet, loan agreements between a country and either IDA or IBRD might not be equally prone to being influenced by industrialized countries, first as stricter allocation rules apply to IDA projects which might also affect the freedom of conditionality design and second as IBRD countries might be of higher interest due to their higher economic importance compared to IDA countries. To account for this possible discrepancy, we interact our trade interest variables with an IBRD dummy. Similarly a difference between prior actions and benchmarks is likely as prior actions are binding conditions that in general have an influence on the disbursement of the loan. We expect a stronger effect with respect to prior actions compared to the softer benchmark conditions.

²⁰ The pattern is similar for the UK but not shown as the coefficient is not significant at conventional levels in the negative binomial regression.

Table 2 shows the results for separating between these categories. With respect to the difference between IDA and IBRD (where we include blend lending²¹), the results support our hypothesis in general. Given that we find a significant effect for all donors except Japan underlines the assumption that a difference between IBRD and pure IDA lending exists. For the UK, France and Germany there is only an effect of trade on the number of trade liberalization conditions observable if the lending is not provided by the IDA whereas for the United States the effect is present only for IDA lending. In a second step, we divide the sample between prior actions and benchmark conditions (Table 2, columns 3 to 6). Though the former should be more attractive for donors to influence as their implementation is related to the loan disbursement, the coefficient for the United States differs only marginally between the two groups. For Germany, then again, the effect of a log point change in trade on the number of trade conditions is 152% for prior actions, while it is 88% for benchmark conditions. In addition, when splitting the sample into subgroups, some of the UNGA voting controls become statistically significant. Interestingly, political alliances seem to matter more for the less binding benchmark conditions. However, the change in significance of the UNGA variables does not affect our trade variables.

Given that our previous results suggest conflicting strategies among the G5 countries, the question arises how these conflicting strategies affect the design of conditionality when interests are mixed. E.g. when both the US and Germany have a high trade interest in a given recipient country, which country is able to pursue its strategy? To answer this question, we use two different approaches. First, we follow Copelovitch (2010) and evaluate whether heterogeneity among the G5's commercial interests has an effect on the conditionality design. To do so, we construct two additional measures. The first one reflects the G5's combined interest in a country, measured as total bilateral trade of all five countries with the recipient. The second one is a ratio that reflects the heterogeneity of trade interests among the G5 countries towards each recipient country. It is constructed in the following way: the numerator contains the combined variance of G5 trade, i.e. the sum of the squared differences

²¹ Blend countries are countries that are IDA eligible due to their low per capita income but are to some extent creditworthy and therefore qualify for IBRD lending as well. Blend lending therefore consists of both lending categories, IBRD and IDA lending. We observe 34 cases of blend lending of which 19 have a higher share of IBRD lending, 7 a higher IDA lending share and 8 an equal share of IBRD and IDA lending. We therefore decided to attribute blend lending to IBRD lending. However our results are robust to excluding blend lending and to counting those projects with a higher share of IDA lending as IDA projects.

between each country's trade value and the G5 trade mean. The denominator is just the mean of G5 trade. In addition to these two measures the share of each G5 country's trade with the recipient relative to the G5's total trade with the country is included. Second, we interact US and German trade interests to evaluate their impact exclusively.

Table 4 presents the results for the heterogeneity analysis. Model 1 includes G5 trade intensity and heterogeneity. To clarify the interpretation, note that if the heterogeneity measure takes on a low value, all G5 countries have an equally strong (weak) trade interest in a given recipient country. Our previous results would suggest that in this case, the G5 countries possibly pursue conflicting strategies. If the heterogeneity measure takes on a high value, some of the G5 countries have a much stronger interest in the recipient country than the others. The results from table 4 show that while the intensity of combined G5 trade interest does not have a significant influence on the dependent variable, stronger heterogeneity among G5 interests leads to a lower number of trade conditions. This can be interpreted in two ways. Since from the previous regressions we conclude that loans for countries the US have a stronger interest in include on average a lower number of trade conditions, it is possible that, on average, the US manage to achieve their preferred outcome if interests are heterogeneous. On the other hand, this negative relation between heterogeneous interests and the number of trade conditions can be interpreted such that the "targeted" number of trade conditions is low and thus, if trade interests in a given recipient country among the G5 are not homogeneous, this target level prevails. This interpretation would be in line with the previous finding (a lower number of trade conditions in case of a stronger interest of the United States). As a large share of the World Bank staff consists of US citizens, we might conclude that what we observe as "objective" behavior is in fact the special interest of the US pushed through by the staff.

In model 2 we interact G5 interest intensity with interest heterogeneity to analyze whether heterogeneity is not equally important over the range of G5 interests. Since we cannot observe a statistically significant difference, we conclude that the negative effect of G5 heterogeneity on the number of trade conditions does not depend on the intensity of interests. Since we observed a conflicting relationship between US and German strategies, we also interact each G5 state's bilateral trade with the heterogeneity variable in model 3. In doing so, we may be able to determine whose

strategy dominates. Surprisingly, both the US and the German trade strategy hold when interacting with G5 heterogeneity. When looking at the marginal effects at different levels of heterogeneity (not shown here), one can see that both can pursue their strategies only at a medium level of heterogeneity. Yet the German effect is stronger and statistically significant over a broader range of heterogeneity. However, for both countries the interaction is not significant at a low level of interest heterogeneity. This implies that for those recipient countries in which both are interested, neither the US nor Germany succeed in pursuing their strategy. As the assumed strategies of the US and Germany are conflicting, it seems logical that if both have an interest in a certain country they cannot both be successful in achieving their aim at the same time. Yet, if a certain level of heterogeneity exists, the data show that both are successful in pursuing their strategies. Since heterogeneity indicates that not all countries have the same trade interest in a recipient, it is not surprising that it becomes easier to fulfill one's own aim. Heterogeneous interests between the G5 thus seem to open up some leeway to pursue donor-specific trade strategies. Our results differ from those of Copelovitch (2010) who finds that G5 interest heterogeneity does not significantly affect the number of conditions attached to an IMF loan, except when overall G5 interests in a country are low. His interpretation is more in line with ours when considering countries where both, the US and Germany have a high interest in. Still, compared to his results for the IMF, the G5 countries seem to have significantly more influence over conditionality with respect to World Bank loans.

With Germany and the US being our two main cases of interest, we interact their trade in column 5. The marginal effects at different deciles of trade of the respective other G5 member (Table 5) show that the effect of Germany's trade interest is most pronounced in the lower part of the US trade distribution. As our results suggested in the beginning, the US rather pursues a trade protection than a trade creation strategy. Therefore, it has little interest in influencing conditions regarding countries it does not trade extensively with. Hence, it is easier for Germany to follow its strategy when US trade intensity is low. For the United States it is the other way around. It is more successful in pursuing its strategy when German trade intensity is high. This result is in line with our findings in the baseline regression where we show that Germany follows a trade creation and promotion strategy and therefore is less interested in countries it already trades very intensely with.

Consequently, the leeway for the US to succeed in its strategy is higher at the upper end of Germany's trade intensity distribution. The results so far show a consistent pattern for Germany's and the United States' interests reflected in World Bank conditionality.²² We test for the robustness of our results in the next section.

Sensitivity analysis

As we described above, the number of trade conditions declined sharply since the mid-1990s. This implies that the share of zeros in our observations increases dramatically for the later years. To ensure that our results are not driven by this trend, we restrict the sample to projects approved before 2001. This reduces our sample to 419 observations without any further distinctions, and to 183 IDA and 236 IBRD projects respectively when additionally differentiating by the source of financing. As table 6 shows, our results are robust to this restriction of our dataset. Furthermore, the results hold for the interaction with the IBRD dummy. Only with respect to IDA lending, the overall results are not confirmed. Also, distinguishing between prior actions and benchmarks does not change our findings in the reduced sample. Additionally, we re-run our model separately for each region as the interests of the G5 might differ between regions.²³ For Germany, the results hold with respect to each different region, whereas concerning the US we only find our results confirmed for Latin America and the Caribbean and East Asia and Pacific. It is well-known that Latin America is the most important trading region for the US. Therefore, it is not surprising that we find the strongest effect here.

In addition, we test the sensitivity of our analysis using formal alliances as an alternative measure for geo-strategic interests. We extracted data on formal alliances from the Correlates of War Dataset (COW 2013, Gibler 2009).²⁴ Firstly, including formal alliances does not change the overall results and secondly, we do not find a significant effect of formal alliances on the number of trade conditions. We also test for the robustness of our results by including economic sanctions on the

²² While we are able to establish a relationship in terms of overall interests in line with the G5 country strategies, it would have been very interesting to delve further into the "suspicious" conditions, such as countries being obliged to reduce or abolish trade barriers for sectors/products of specific interest to G5 countries. However, due to a lack of specificity in the conditions' description and a lack of adequate trade data, we were confined to an analysis on a more general level.

²³ Middle East and North Africa as well as South Asia have too few observations to run a separate regression. The regions analyzed separately are: Latin America and the Caribbean, Sub-Saharan Africa, East Asia and Pacific as well as Europe and Central Asia.

²⁴ This measure has also been used by Berger *et al.* (2013) who analyzed the effect of CIA interventions on US trade. While we do not see a relation between CIA interventions and trade conditions as it is a very special measure, formal alliances are more general and reflect broad geo-strategic interest.

recipient by the G5 countries (Hufbauer *et al.* 2008). The results for the US and Germany are robust to both additional tests. The sanctions themselves show a negative and significant impact, but only when the dataset is confined to the pre-2000 observations.^{25,26}

With respect to robustness checks, we address some issues that might influence our results. Firstly, we were concerned that while the negative binomial estimator performed quite well in light of the many zeros in the dependent variable, the influence of these zeros may still not be sufficiently controlled for. Therefore, we re-estimate our specifications using the Poisson Pseudo-Maximum-Likelihood (PPML) method (Santos Silva and Tenreyro, 2006). The PPML-estimator in the version of Santos Silva and Tenreyro (2006) has been developed in the context of gravity estimations. Firstly, it performs well in the presence of a large number of zeroes in the dependent variable. Secondly, it is also robust to heteroskedasticity processes in the data.²⁷ Our main results are robust to changing the estimation method to PPML. We find the same sign and significance as well as similar sizes of coefficients for the US and Germany.

We address two further issues, multicollinearity and outliers. Naturally, there is correlation between the trade flows of the different G5 countries with the recipient countries, leaving some concern about whether this affects the identification of coefficients in extreme cases.²⁸ To address these concerns, we exclude the upper 30% (and 40% respectively) of the German trade distribution and re-estimate all specifications. For the US, we exclude the lower 30% (and 40% respectively) of its trade distribution.²⁹ In doing so, the correlation between trade flows of the G5 countries drops substantially, most notably between German and US trade flows. Still, our main results remain unchanged. The size of the coefficients varies to some degree, but qualitatively the results hold, including the margins over the different trade deciles. In addition, we were also concerned with possible outliers, especially at high numbers of trade conditions. Therefore, we dropped the upper 10%

²⁵ Export or import sanctions may be interpreted as extreme forms of political trade barriers. Consequently, it seems logical that countries against whom sanctions are installed are not pushed towards liberalization through a different channel.

²⁶ In addition, we also included governments' political orientation in our model, assuming that left-wing governments would be more reluctant to push other countries towards trade liberalization. However, we do not find a significant effect in any specification.

²⁷ For the PPML estimator to be consistent, only the conditional mean has to be correctly specified. Since it does not make any specific assumptions about dispersion, it is not affected by a violation of equidispersion.

²⁸ Correlation of the G5 trade flows is between 0.7 and 0.8.

²⁹ This procedure implicitly yields an additional check for the overall robustness of our results, since we exclude the parts of the US and German trade distributions for which our results are strongest.

and 20% of the trade conditions distribution, respectively. The overall coefficients for German trade remain positive and significant, while the coefficients for US trade are negative, but insignificant, now. However, when looking at the marginal effects over the deciles of the US trade distribution, we again find the results of our main specifications confirmed.³⁰

VII. CONCLUSION

In order to alleviate poverty and foster economic and social development, the ability of international organizations to function as impartial providers of aid is vital to limiting the strategic behavior that has been found to accompany bilateral aid relationships. As the main institutions to turn to in situations of need and economic turmoil, the World Bank and the IMF both use conditionality attached to loans and projects to streamline the use of the provided funds to the intended means. Yet, numerous studies suggest that we can observe strategic behavior of the most important shareholders within these organizations. The number of conditions attached to an agreement has been found to depend on various factors that reflect a major shareholder's behavior, e.g., measures of geopolitical interests.

In this article, we take the analysis one step further, exploiting a newly available dataset which features the conditions attached to World Bank development policy loans approved during the last decades. Specifically, we focus on trade liberalization conditions. On the one hand, developing countries' economies typically depend on trade in a few selected products, while restrictions are seen as helpful in developing sectors where their potential competitiveness is high. On the other hand, the major industrialized countries also rely on trade extensively to sustain economic growth, rendering liberalized markets more desirable. We analyze the trade interests of the five main shareholders of the World Bank and find different and robust patterns for Germany and the United States. While trading partners of Germany on average face a significantly higher number of trade conditions attached to their loans, those of the United States have a lower number of trade conditions included in their agreements.

For Germany, we interpret this result as a trade intensification strategy. The effect is most pronounced close to the median of trade, which is the area where trade has already been established

³⁰ All results described in this section are available from the authors upon request.

but can still be intensified. Trade liberalization could be one instrument to achieve this objective. For the United States, we conclude that their behavior reflects a trade protection strategy. Those countries the US trades intensively with should not further liberalize their markets to maintain entry barriers for competitors to US firms. Interestingly, we find a stronger effect for prior actions which are binding conditions that influence the loan disbursement decision. The results confirm our expectation that it is more beneficial to influence this kind of conditions as they are more likely to be implemented. Furthermore, our results are also in line with the general hypothesis that IDA lending is less prone to be exploited strategically.

Summing up, our estimations support the findings of numerous studies in the literature that major actors within the multilateral aid agencies influence the design of lending agreements. As conditionality is supposed to ensure necessary reforms to improve the economic performance of the recipient country, strategic influence by the main shareholders undermines this aim. Furthermore, recipient countries might question the World Bank's advice and its legitimacy when commercial interests affect conditionality. Our finding thus contributes to the discussion on enhancing transparency of decisions by the World Bank's Executive Board and on the distribution of power within the Bank.

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Figure 1: Average Number of conditions per Year, 1980 - 2011

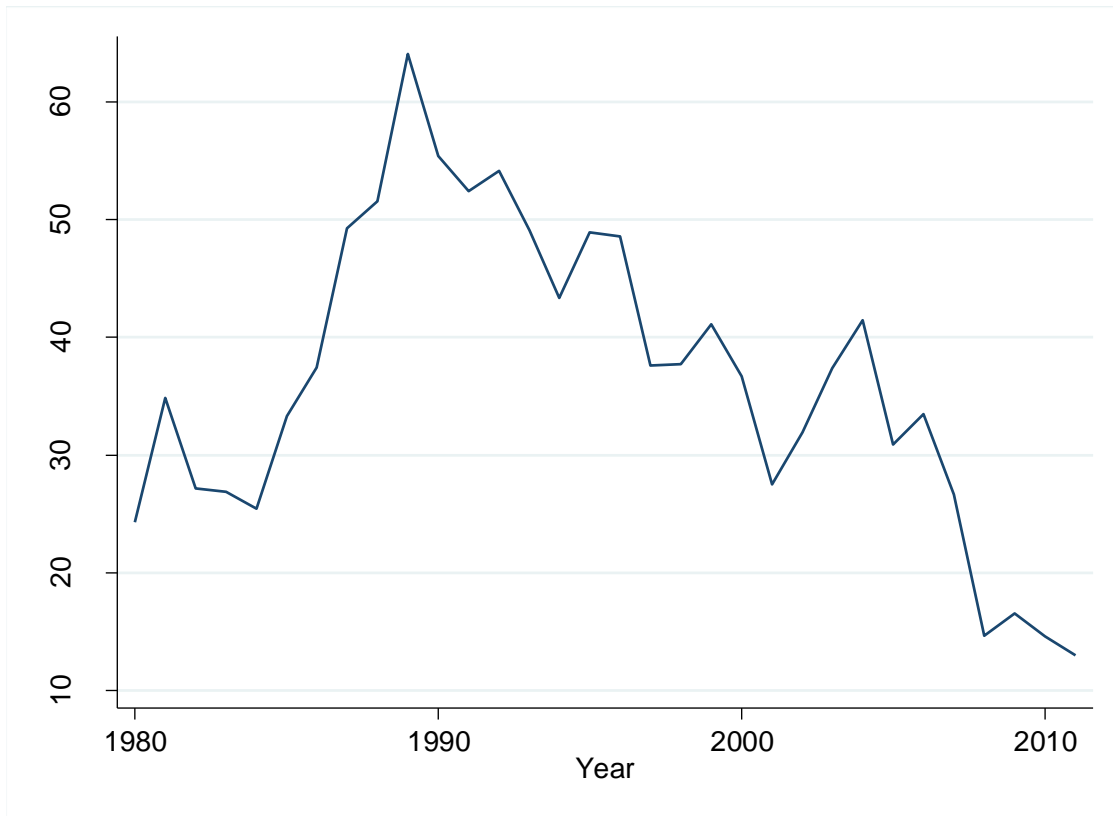


Figure 2: Average Number of Trade Conditions per Year, 1980 - 2011

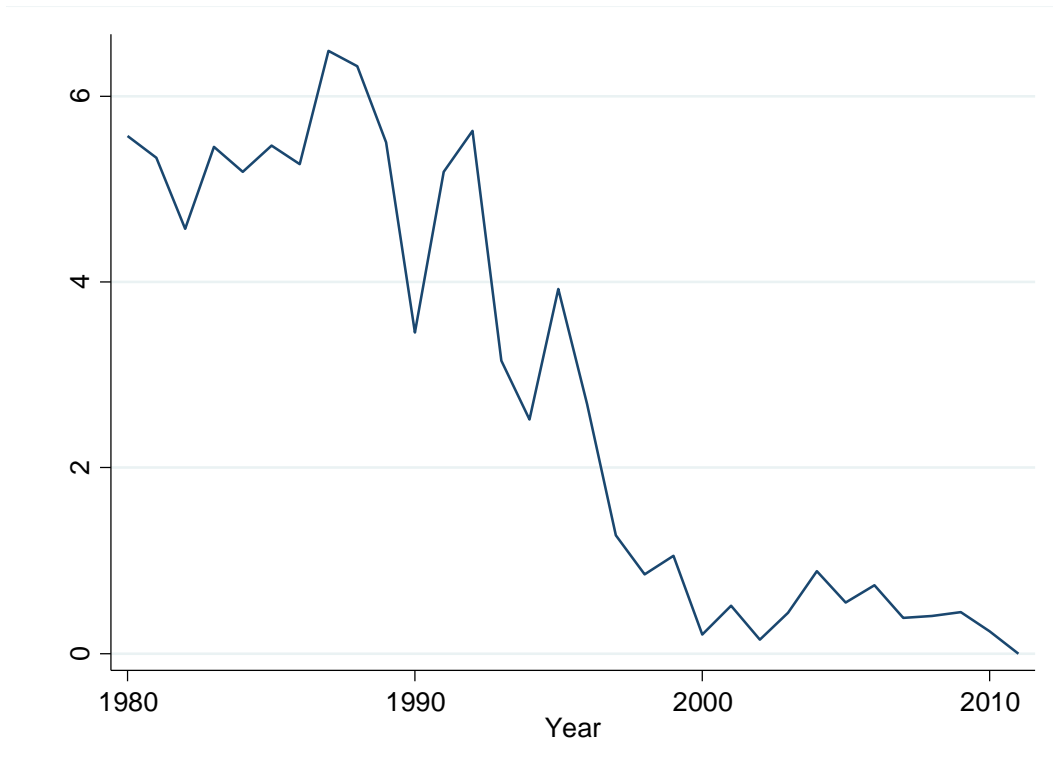


Figure 3: Number of Projects by Sector, 1980 - 2011

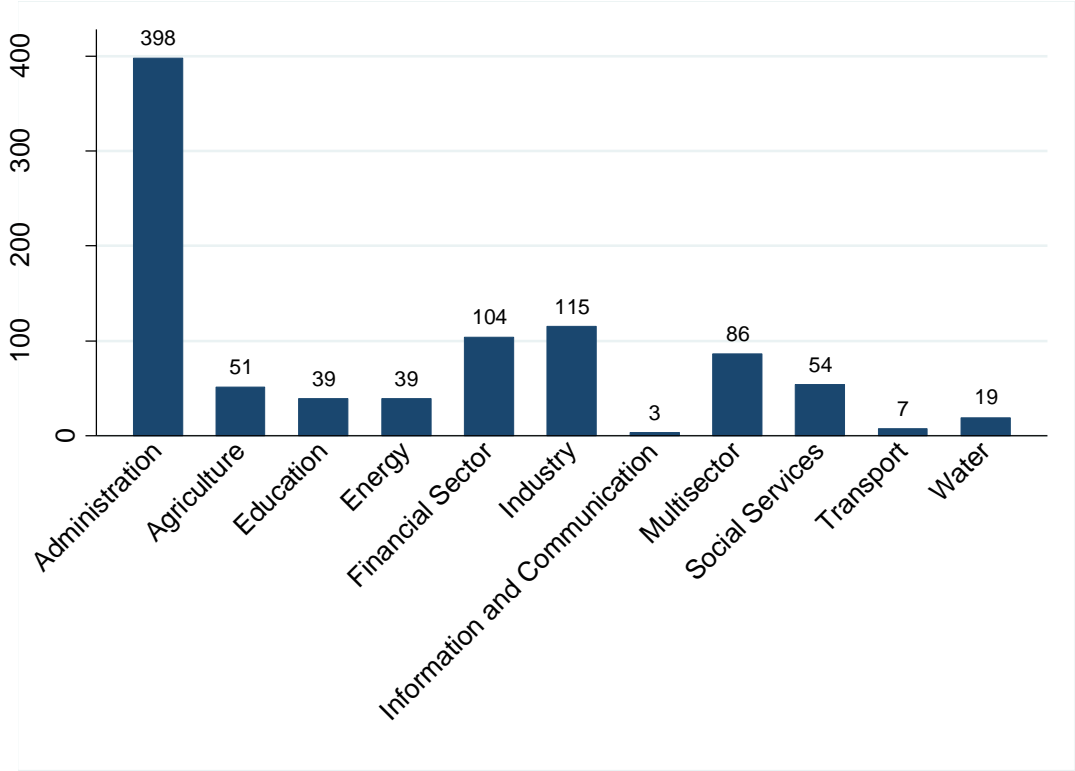
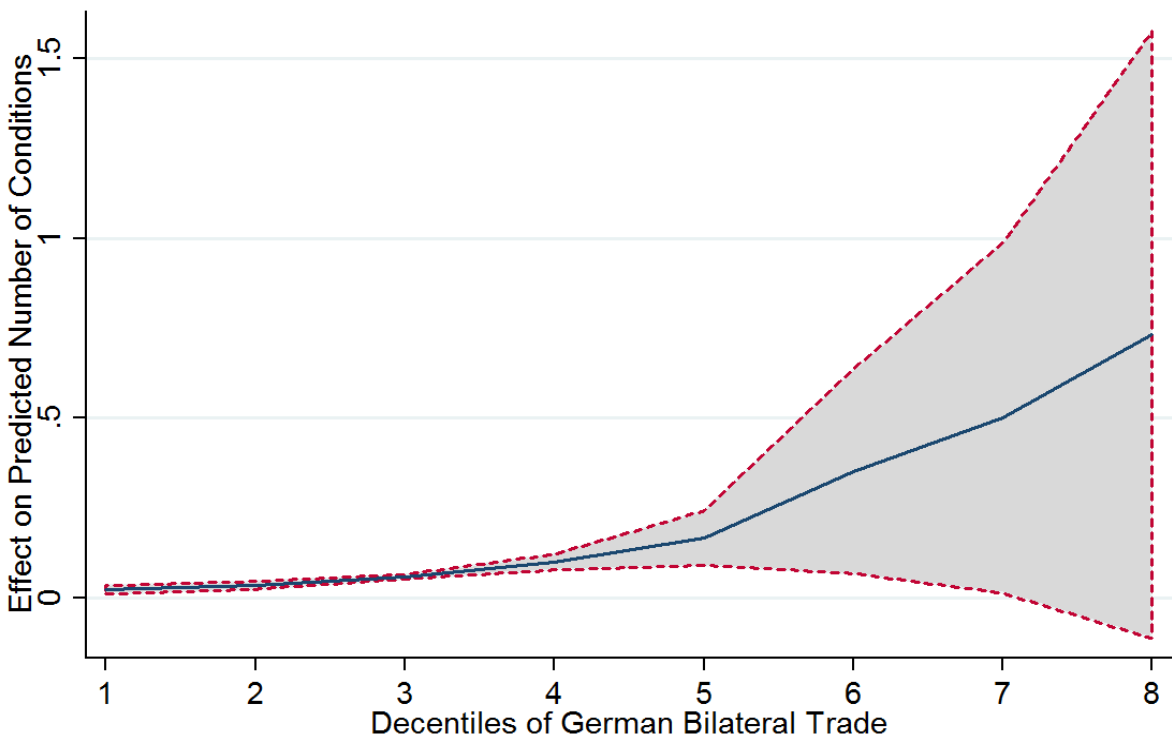
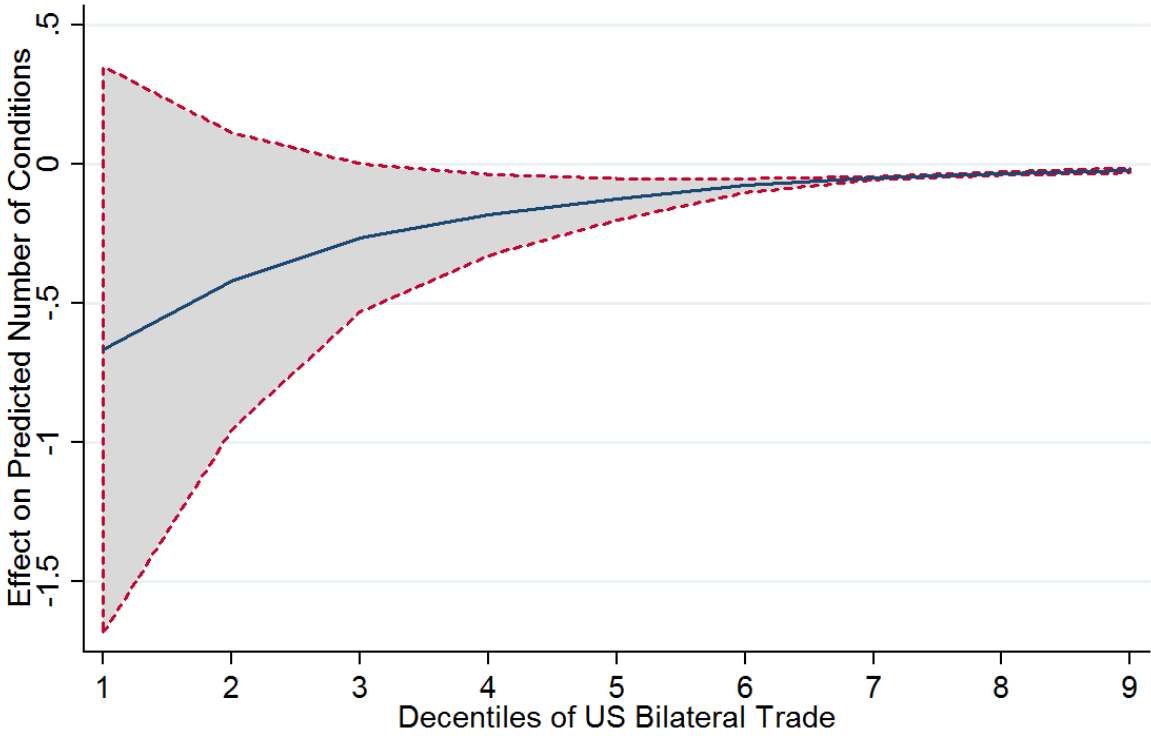


Figure 4: Marginal Effect German Bilateral Trade on Trade Conditions



Notes: The plot is based on results presented in table 1 (column 7). The solid line shows the average marginal effect of German bilateral trade on the number of trade conditions over the German trade deciles. The dashed lines indicate the 90% confidence interval.

Figure 5: Marginal Effect US Bilateral Trade on Trade Conditions



Notes: The plot is based on results presented in table 1 (column 7). The solid line shows the average marginal effect of US bilateral trade on the number of trade conditions over the US trade decentiles. The dashed lines indicate the 90% confidence interval.

Table 1: Baseline Regression OLS and Negative Binomial

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|-------------------|-------------------|
| | OLS | | | | Negative Binomial | | | |
| Log GDPpc _{t-1} | -0.429 [0.694] | -0.303 [0.788] | -1.512 [0.192] | -1.338 [0.287] | 0.169 [0.758] | 0.148 [0.786] | -0.391 [0.455] | -0.080 [0.900] |
| Inflation _{t-1} | 0.794 [0.511] | 0.654 [0.587] | 0.331 [0.761] | -0.075 [0.952] | 0.633 [0.260] | 0.652 [0.255] | 0.705 [0.172] | 0.680 [0.238] |
| Current Account _{t-1} | 0.000 [0.986] | 0.008 [0.763] | 0.008 [0.754] | 0.010 [0.709] | 0.017 [0.175] | 0.019 [0.149] | 0.018 [0.154] | 0.023* [0.090] |
| Trade Openness _{t-1} | -0.000 [1.000] | 0.000 [0.998] | 0.004 [0.643] | 0.004 [0.636] | -0.001 [0.835] | -0.002 [0.733] | 0.001 [0.843] | -0.001 [0.926] |
| RTA with USA | -0.119 [0.854] | 0.277 [0.667] | 0.243 [0.656] | 0.103 [0.850] | -0.922** [0.034] | -0.831* [0.063] | -0.906** [0.029] | -0.952** [0.027] |
| RTA with Japan | 0.664 [0.273] | 0.873* [0.094] | 0.940* [0.068] | 0.714 [0.168] | 0.320 [0.670] | 0.570 [0.400] | 0.580 [0.353] | 0.598 [0.324] |
| RTA with EU | -0.082 [0.893] | -0.066 [0.915] | -0.364 [0.569] | -0.202 [0.763] | -0.499 [0.336] | -0.532 [0.304] | -0.529 [0.335] | -0.586 [0.319] |
| GATT/WTO | -0.544 [0.316] | -0.427 [0.434] | -0.333 [0.531] | -0.343 [0.542] | -0.085 [0.756] | 0.061 [0.829] | -0.046 [0.863] | -0.067 [0.814] |
| Under IMF Program _{t-1} | -0.254 [0.314] | -0.228 [0.369] | -0.278 [0.265] | -0.233 [0.391] | -0.193 [0.176] | -0.144 [0.299] | -0.159 [0.270] | -0.147 [0.330] |
| Total no. of Conditions (without trade conditions) | 0.007 [0.382] | 0.008 [0.359] | 0.008 [0.342] | 0.009 [0.317] | 0.010*** [0.001] | 0.010*** [0.001] | 0.010*** [0.001] | 0.011*** [0.001] |
| Number of Prior Trade Conditions | -0.137*** [0.000] | -0.138*** [0.000] | -0.142*** [0.000] | -0.141*** [0.000] | -0.022** [0.029] | -0.024** [0.020] | -0.024** [0.012] | -0.026** [0.010] |
| Legislative Constraints _{t-1} | | 0.172** [0.047] | 0.152* [0.055] | 0.178** [0.041] | | 0.043 [0.333] | 0.031 [0.469] | 0.016 [0.713] |
| Election _{t-1} | | 0.449* [0.084] | 0.415 [0.124] | 0.440 [0.101] | | 0.158 [0.271] | 0.167 [0.239] | 0.182 [0.212] |
| Log Trade US _{t-1} | | | -1.112*** [0.003] | -1.103*** [0.004] | | | -0.566*** [0.004] | -0.571*** [0.004] |
| Log Trade Japan _{t-1} | | | -0.135 [0.603] | -0.183 [0.471] | | | 0.267 [0.165] | 0.245 [0.186] |
| Log Trade UK _{t-1} | | | -0.722** [0.025] | -0.627** [0.034] | | | -0.241 [0.172] | -0.248 [0.156] |
| Log Trade France _{t-1} | | | 0.010 [0.976] | 0.017 [0.956] | | | -0.223 [0.188] | -0.209 [0.221] |
| Log Trade Germany _{t-1} | | | 1.974*** [0.000] | 1.915*** [0.000] | | | 0.818*** [0.001] | 0.843*** [0.000] |
| UNGA Voting USA _{t-1} | | | | 1.612 [0.371] | | | | 0.356 [0.813] |
| UNGA Voting Japan _{t-1} | | | | 5.030 [0.428] | | | | 0.477 [0.855] |
| UNGA Voting UK _{t-1} | | | | -4.284 [0.605] | | | | 3.241 [0.445] |
| UNGA Voting France _{t-1} | | | | -4.474 [0.385] | | | | -3.614 [0.142] |
| UNGA Voting Germany _{t-1} | | | | 0.985 [0.839] | | | | 1.001 [0.499] |
| UNSC | | | | 0.128 [0.693] | | | | 0.003 [0.984] |
| Constant | 16.880* [0.075] | 6.521 [0.287] | 11.058* [0.061] | 27.347** [0.021] | 1.401 [0.684] | 1.128 [0.742] | 2.961 [0.352] | 0.126 [0.977] |
| Observations | 915 | 878 | 878 | 865 | 915 | 878 | 878 | 865 |
| R ² | 0.520 | 0.520 | 0.539 | 0.539 | | | | |
| McFadden R ² | | | | | 0.121 | 0.117 | 0.123 | 0.121 |
| BIC | | | | | 2608 | 2552 | 2518 | 2487 |

Notes: Dependent variables: total number of trade conditions in project i. Standard errors are clustered at the country-level. All estimations include a time trend, sector and country dummies. P-values are in brackets where *p<0.1 **p<0.5 ***p<0.01.

Table 2: Negative Binomial for IBRD interaction, Prior Action and Benchmarks separately

| | (1) | (2) | (3) | (4) | (5) | (6) |
|--|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
| | Prior Action | | | Benchmark | | |
| Log GDP _{pc,t-1} | -0.323 [0.545] | 0.021 [0.974] | -0.488 [0.419] | -0.298 [0.682] | -0.760 [0.406] | -0.148 [0.887] |
| Inflation _{t-1} | 0.677 [0.178] | 0.639 [0.246] | 0.863 [0.109] | 0.865 [0.139] | 0.509 [0.504] | 0.916 [0.267] |
| Current Account _{t-1} | 0.015 [0.265] | 0.020 [0.160] | 0.032** [0.034] | 0.036** [0.021] | 0.003 [0.861] | 0.007 [0.648] |
| Trade Openness _{t-1} | -0.000 [0.937] | -0.002 [0.696] | 0.002 [0.757] | 0.000 [0.952] | 0.001 [0.859] | -0.001 [0.863] |
| RTA with USA | -1.082** [0.021] | -1.097** [0.020] | -0.700* [0.054] | -0.811*** [0.009] | -15.131*** [0.000] | -14.689*** [0.000] |
| RTA with Japan | 0.409 [0.526] | 0.418 [0.506] | 0.682 [0.366] | 0.646 [0.395] | 0.708 [0.477] | 0.848 [0.382] |
| RTA with EU | -0.488 [0.381] | -0.546 [0.350] | -1.014* [0.064] | -0.950 [0.104] | -0.208 [0.803] | -0.341 [0.703] |
| GATT/WTO | 0.042 [0.884] | 0.017 [0.954] | -0.162 [0.485] | -0.170 [0.488] | -0.225 [0.583] | -0.307 [0.475] |
| Under IMF Program _{t-1} | -0.120 [0.388] | -0.107 [0.473] | -0.001 [0.996] | -0.014 [0.943] | -0.429** [0.022] | -0.375* [0.068] |
| Total no. of Conditions (without trade conditions) | 0.010*** [0.002] | 0.011*** [0.001] | 0.002 [0.593] | 0.002 [0.523] | 0.020*** [0.000] | 0.021*** [0.000] |
| Number of Prior Trade Conditions | -0.025*** [0.010] | -0.027*** [0.009] | -0.005 [0.684] | -0.007 [0.531] | -0.052*** [0.000] | -0.052*** [0.000] |
| Legislative Constraints _{t-1} | 0.030 [0.462] | 0.014 [0.744] | -0.057 [0.224] | -0.065 [0.195] | 0.013 [0.841] | 0.005 [0.933] |
| Election _{t-1} | 0.169 [0.222] | 0.183 [0.196] | 0.293 [0.100] | 0.300* [0.088] | 0.107 [0.572] | 0.167 [0.390] |
| Log Trade US _{t-1} | -0.515** [0.013] | -0.503** [0.016] | -0.612** [0.020] | -0.569** [0.025] | -0.511** [0.024] | -0.532** [0.021] |
| Log Trade Japan _{t-1} | 0.153 [0.504] | 0.108 [0.622] | 0.441** [0.027] | 0.418** [0.028] | 0.105 [0.661] | 0.074 [0.749] |
| Log Trade UK _{t-1} | 0.022 [0.929] | 0.026 [0.915] | -0.610*** [0.006] | -0.615*** [0.002] | 0.236 [0.305] | 0.255 [0.252] |
| Log Trade France _{t-1} | -0.076 [0.651] | -0.067 [0.704] | -0.092 [0.702] | -0.108 [0.658] | -0.230 [0.321] | -0.269 [0.237] |
| Log Trade Germany _{t-1} | 0.485* [0.072] | 0.507* [0.067] | 0.925*** [0.000] | 0.921*** [0.000] | 0.632* [0.074] | 0.704* [0.051] |
| IBRD | -1.095 [0.838] | -0.935 [0.863] | | | | |
| Log Trade US _{t-1} * IBRD | 0.076 [0.809] | -0.024 [0.938] | | | | |
| Log Trade Japan _{t-1} * IBRD | 0.130 [0.659] | 0.191 [0.504] | | | | |
| Log Trade UK _{t-1} * IBRD | -0.547* [0.085] | -0.544* [0.092] | | | | |
| Log Trade France _{t-1} * IBRD | -0.407** [0.032] | -0.386* [0.053] | | | | |
| Log Trade Germany _{t-1} * IBRD | 0.804* [0.076] | 0.817* [0.074] | | | | |
| UNGA Voting USA _{t-1} | | 0.614 [0.669] | | 1.853 [0.271] | | -1.771 [0.353] |
| UNGA Voting Japan _{t-1} | | 0.625 [0.812] | | 4.727* [0.100] | | -1.356 [0.686] |
| UNGA Voting UK _{t-1} | | 2.949 [0.498] | | -7.288 [0.131] | | 12.025** [0.039] |
| UNGA Voting France _{t-1} | | -3.509 [0.154] | | 2.166 [0.399] | | -7.541* [0.055] |
| UNGA Voting Germany _{t-1} | | 0.954 [0.490] | | 2.462 [0.125] | | -1.903 [0.161] |
| UNSC | | -0.024 [0.894] | | 0.109 [0.568] | | -0.113 [0.700] |
| Constant | 2.223 [0.498] | -0.922 [0.832] | 4.273 [0.219] | 1.356 [0.787] | 0.865 [0.875] | -3.312 [0.612] |
| Observations | 878 | 865 | 878 | 865 | 878 | 865 |
| McFadden R ² | 0.123 | 0.120 | 0.154 | 0.152 | 0.0882 | 0.0858 |
| BIC | 2484 | 2447 | 1933 | 1855 | 1536 | 1521 |

Notes: Dependent variables: total number of trade conditions (columns 1 and 2), total number of trade prior actions (columns 3 and 4) and total number of trade benchmark conditions (columns 5 and 6) in project i. Standard errors are clustered at the country-level. All estimations include a time trend, sector and country dummies. P-values are in brackets where *p<0.1 **p<0.5 ***p<0.01.

Table 3: Marginal Effect of bilateral trade for IBRD and non-IBRD lending

| | | (1) | (2) |
|----------------------------------|--------|------------------|------------------|
| Log Trade US _{t-1} | IBRD=0 | -0.068** [0.043] | -0.070** [0.044] |
| | IBRD=1 | -0.097 [0.266] | -0.125 [0.201] |
| Log Trade Japan _{t-1} | IBRD=0 | 0.020 [0.506] | 0.015 [0.623] |
| | IBRD=1 | 0.062 [0.349] | 0.071 [0.314] |
| Log Trade UK _{t-1} | IBRD=0 | 0.003 [0.929] | 0.004 [0.915] |
| | IBRD=1 | -0.116** [0.048] | -0.123* [0.054] |
| Log Trade France _{t-1} | IBRD=0 | -0.010 [0.656] | -0.009 [0.708] |
| | IBRD=1 | -0.107** [0.050] | -0.107* [0.067] |
| Log Trade Germany _{t-1} | IBRD=0 | 0.064 [0.118] | 0.071 [0.117] |
| | IBRD=1 | 0.284*** [0.001] | 0.314*** [0.001] |

Notes: Marginal effects for the interactions derived from table 2, columns 1 and 2. P-values are in brackets where *p<0.1 **p<0.5 ***p<0.01.

Table 4: Heterogeneity of G5 Interest

| | (1) | (2) | (3) | (4) |
|--|------------------|------------------|-------------------|-------------------|
| Log GDPpc _{t-1} | -0.533 [0.362] | -0.542 [0.351] | -0.677 [0.247] | -0.734 [0.265] |
| Inflation _{t-1} | 0.696 [0.196] | 0.664 [0.224] | 0.727 [0.171] | 0.703 [0.169] |
| Current Account _{t-1} | 0.020 [0.117] | 0.021 [0.115] | 0.023* [0.071] | 0.022* [0.099] |
| Trade Openness _{t-1} | -0.001 [0.914] | -0.000 [0.926] | -0.001 [0.841] | -0.000 [0.994] |
| RTA with USA | -0.832** [0.046] | -0.778* [0.075] | -1.038** [0.024] | -0.920** [0.033] |
| RTA with Japan | 0.602 [0.347] | 0.618 [0.350] | 0.448 [0.467] | 0.593 [0.338] |
| RTA with EU | -0.573 [0.279] | -0.572 [0.284] | -0.608 [0.245] | -0.651 [0.242] |
| GATT/WTO | 0.027 [0.919] | 0.037 [0.892] | 0.002 [0.993] | -0.014 [0.959] |
| Under IMF Program _{t-1} | -0.134 [0.314] | -0.131 [0.331] | -0.160 [0.246] | -0.140 [0.314] |
| Total no. of Conditions (without trade conditions) | 0.010*** [0.002] | 0.010*** [0.002] | 0.010*** [0.002] | 0.010*** [0.002] |
| Number of Prior Trade Conditions | -0.024** [0.015] | -0.024** [0.015] | -0.025*** [0.005] | -0.025*** [0.008] |
| Legislative Constraints _{t-1} | 0.007 [0.867] | 0.005 [0.904] | 0.029 [0.508] | 0.034 [0.429] |
| Election _{t-1} | 0.167 [0.246] | 0.164 [0.255] | 0.161 [0.253] | 0.177 [0.207] |
| Share Trade USA/G5 _{t-1} | -1.251 [0.441] | -1.211 [0.466] | | |
| Share Trade Japan/G5 _{t-1} | 0.993 [0.676] | 1.057 [0.668] | | |
| Share Trade UK/G5 _{t-1} | -1.748 [0.424] | -1.692 [0.451] | | |
| Share Trade France/G5 _{t-1} | 1.126 [0.547] | 1.142 [0.547] | | |
| Share Trade Germany/G5 _{t-1} | 3.290* [0.077] | 3.304* [0.079] | | |
| G5 Trade Heterogeneity _{t-1} | -1.112** [0.029] | 0.412 [0.943] | -0.974 [0.846] | |
| Log Trade G5 _{t-1} | 0.182 [0.425] | 0.239 [0.448] | | |
| Log Trade G5 _{t-1} * G5 Trade Heterogeneity _{t-1} | | -0.073 [0.791] | | |
| Log Trade US _{t-1} | | | -0.663* [0.065] | -0.775*** [0.002] |
| Log Trade US _{t-1} * G5 Trade Heterogeneity _{t-1} | | | 0.198 [0.514] | |
| Log Trade Japan _{t-1} | | | 0.792** [0.026] | 0.269 [0.162] |
| Log Trade Japan _{t-1} * G5 Trade Heterogeneity _{t-1} | | | -0.513* [0.091] | |
| Log Trade UK _{t-1} | | | 0.143 [0.731] | -0.238 [0.187] |
| Log Trade UK _{t-1} * G5 Trade Heterogeneity _{t-1} | | | -0.377 [0.390] | |
| Log Trade France _{t-1} | | | -0.266 [0.369] | |
| Log Trade France _{t-1} * G5 Trade Heterogeneity _{t-1} | | | 0.075 [0.791] | |
| Log Trade Germany _{t-1} | | | 0.345 [0.444] | 0.591** [0.020] |
| Log Trade Germany _{t-1} * G5 Trade Heterogeneity _{t-1} | | | 0.582 [0.234] | |
| Log Trade Germany _{t-1} * G5 TradeUSA _{t-1} | | | | 0.011 [0.360] |
| Constant | 1.766 [0.714] | 0.566 [0.934] | -0.201 [0.973] | 5.145 [0.196] |
| Observations | 877 | 877 | 877 | 878 |
| McFadden R ² | 0.121 | 0.120 | 0.123 | 0.123 |
| BIC | 2438 | 2446 | 2448 | 2464 |

Notes: Dependent variables: total number of trade conditions in project i. Standard errors are clustered at the country-level. All estimations include a time trend, sector and country dummies. P-values are in brackets where *p<0.1 **p<0.05 ***p<0.01.

Table 5: Marginal Effect German and US trade interaction

| | | (1) |
|---------------------------------|---|------------------|
| Log German Trade _{t-1} | Decentiles of Log US Trade _{t-1} | |
| | 1 | 0.862 [0.199] |
| | 2 | 0.558 [0.106] |
| | 3 | 0.360** [0.032] |
| | 4 | 0.253*** [0.006] |
| | 5 | 0.179*** [0.001] |
| | 6 | 0.113*** [0.001] |
| | 7 | 0.075*** [0.008] |
| | 8 | 0.052** [0.041] |
| | 9 | 0.035 [0.108] |
| Log US Trade _{t-1} | Decentiles of Log German Trade _{t-1} | |
| | 1 | -0.015 [0.133] |
| | 2 | -0.024* [0.074] |
| | 3 | -0.040** [0.030] |
| | 4 | -0.066** [0.012] |
| | 5 | -0.109** [0.011] |
| | 6 | -0.227** [0.040] |
| | 7 | -0.321* [0.073] |
| | 8 | -0.465 [0.121] |
| | 9 | -0.867 [0.215] |

Notes: Marginal effects of German trade (US trade) on the number of trade conditions at different decentiles of US trade (German trade). Coefficients are based on the results of Table 4, column 4.

Table 6: Sample limited to Projects approved between 1980 - 2000

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Prior Action | | | | Benchmark | | |
| Log GDP _p _{t-1} | -0.192 [0.817] | -0.372 [0.678] | -0.009 [0.993] | 0.230 [0.797] | 0.325 [0.752] | -0.929 [0.430] | -0.110 [0.945] |
| Inflation _{t-1} | 1.579** [0.013] | 1.598*** [0.009] | 1.559** [0.018] | 1.720** [0.011] | 1.434* [0.061] | 0.986 [0.243] | 1.304 [0.157] |
| Current Account _{t-1} | 0.006 [0.730] | -0.001 [0.937] | -0.002 [0.910] | 0.013 [0.528] | 0.012 [0.534] | -0.007 [0.768] | 0.000 [1.000] |
| Trade Openness _{t-1} | -0.007 [0.284] | -0.007 [0.281] | -0.009 [0.199] | -0.008 [0.250] | -0.007 [0.325] | -0.001 [0.915] | -0.004 [0.742] |
| RTA with USA | -18.227*** [0.000] | -16.982*** [0.000] | -17.315*** [0.000] | -16.482*** [0.000] | -16.837*** [0.000] | -15.891*** [0.000] | -15.552*** [0.000] |
| RTA with EU | -1.103 [0.140] | -1.062 [0.178] | -0.918 [0.241] | -1.602 [0.187] | -1.406 [0.236] | -0.386 [0.618] | -0.470 [0.507] |
| GATT/WTO | -0.027 [0.911] | -0.062 [0.809] | -0.047 [0.861] | -0.003 [0.989] | 0.080 [0.732] | -0.393 [0.399] | -0.536 [0.271] |
| Under IMF Program _{t-1} | -0.133 [0.393] | -0.077 [0.627] | 0.008 [0.962] | 0.000 [0.999] | 0.133 [0.491] | -0.353* [0.074] | -0.380* [0.082] |
| Total no. of Conditions (without trade conditions) | 0.003 [0.345] | 0.003 [0.398] | 0.003 [0.414] | 0.000 [0.961] | 0.000 [0.973] | 0.011** [0.029] | 0.011** [0.048] |
| Number of Prior Trade Conditions | -0.015 [0.270] | -0.014 [0.291] | -0.016 [0.202] | -0.004 [0.800] | -0.008 [0.586] | -0.039** [0.012] | -0.038** [0.017] |
| Legislative Constraints _{t-1} | -0.000 [0.993] | -0.008 [0.870] | -0.010 [0.855] | -0.075 [0.182] | -0.048 [0.416] | -0.007 [0.931] | -0.035 [0.671] |
| Election _{t-1} | 0.232 [0.192] | 0.237 [0.188] | 0.227 [0.211] | 0.237 [0.209] | 0.224 [0.224] | 0.197 [0.393] | 0.254 [0.294] |
| Log Trade US _{t-1} | -0.635*** [0.003] | -0.578** [0.012] | -0.624*** [0.008] | -0.566* [0.059] | -0.630** [0.023] | -0.634** [0.018] | -0.674** [0.025] |
| Log Trade Japan _{t-1} | 0.012 [0.963] | -0.118 [0.742] | -0.189 [0.609] | 0.025 [0.929] | 0.015 [0.960] | -0.093 [0.807] | -0.162 [0.681] |
| Log Trade UK _{t-1} | -0.380** [0.013] | 0.046 [0.877] | 0.092 [0.767] | -0.547*** [0.007] | -0.448*** [0.007] | 0.003 [0.991] | -0.026 [0.909] |
| Log Trade France _{t-1} | -0.422* [0.078] | -0.340 [0.133] | -0.276 [0.208] | -0.227 [0.436] | -0.135 [0.606] | -0.564 [0.117] | -0.598 [0.117] |
| Log Trade Germany _{t-1} | 1.044*** [0.001] | 0.660* [0.073] | 0.633* [0.100] | 1.209*** [0.000] | 1.110*** [0.001] | 0.669 [0.116] | 0.634 [0.168] |
| IBRD | | -1.426 [0.862] | -1.983 [0.809] | | | | |
| Log Trade US _{t-1} * IBRD | | 0.034 [0.922] | -0.022 [0.951] | | | | |
| Log Trade Japan _{t-1} * IBRD | | 0.246 [0.583] | 0.357 [0.435] | | | | |
| Log Trade UK _{t-1} * IBRD | | -0.656* [0.067] | -0.620* [0.091] | | | | |
| Log Trade France _{t-1} * IBRD | | -0.403 [0.100] | -0.441* [0.091] | | | | |
| Log Trade Germany _{t-1} * IBRD | | 0.879 [0.144] | 0.860 [0.162] | | | | |
| UNGA Voting USA _{t-1} | | | -0.515 [0.782] | | -0.750 [0.705] | | -0.092 [0.972] |
| UNGA Voting Japan _{t-1} | | | 1.932 [0.549] | | 0.989 [0.768] | | 5.063 [0.214] |
| UNGA Voting UK _{t-1} | | | -1.221 [0.779] | | -7.781 [0.108] | | 7.590 [0.151] |
| UNGA Voting France _{t-1} | | | -2.359 [0.345] | | 0.854 [0.758] | | -6.192 [0.141] |
| UNGA Voting Germany _{t-1} | | | 0.863 [0.423] | | 1.789 [0.179] | | -1.518 [0.159] |
| UNSC | | | 0.021 [0.931] | | 0.105 [0.622] | | 0.131 [0.728] |
| Constant | 10.365** [0.023] | 9.934 [0.111] | 8.520 [0.245] | 2.401 [0.674] | 3.285 [0.609] | 18.691** [0.011] | 14.741* [0.096] |
| Observations | 419 | 419 | 408 | 419 | 408 | 419 | 408 |
| McFadden R ² | 0.0702 | 0.0695 | 0.0628 | 0.0836 | 0.0799 | 0.0367 | 0.0290 |
| BIC | 1667 | 1669 | 1647 | 1394 | 1360 | 1046 | 1039 |

Notes: Dependent variables: total number of trade conditions (columns 1 and 2), total number of trade prior actions (columns 3 and 4) and total number of trade benchmark conditions (columns 5 and 6) in project *i*. The sample is restricted to observations before the year 2001. Standard errors are clustered at the country-level. All estimations include a time trend, sector and country dummies. P-values are in brackets where * $p < 0.1$ ** $p < 0.05$ *** $p < 0.01$.

Table 7: Marginal Effect of bilateral trade for IBRD and non-IBRD lending, 1980 - 2000

| | | (1) | (2) |
|----------------------------------|--------|-------------------|------------------|
| Log Trade US _{t-1} | IBRD=0 | -0.100* [0.075] | -0.101* [0.055] |
| | IBRD=1 | -0.267 [0.228] | -0.292 [0.182] |
| Log Trade Japan _{t-1} | IBRD=0 | -0.020 [0.739] | -0.031 [0.605] |
| | IBRD=1 | 0.063 [0.725] | 0.076 [0.651] |
| Log Trade UK _{t-1} | IBRD=0 | 0.008 [0.876] | 0.015 [0.763] |
| | IBRD=1 | -0.300*** [0.008] | -0.239** [0.021] |
| Log Trade France _{t-1} | IBRD=0 | -0.059 [0.185] | -0.045 [0.258] |
| | IBRD=1 | -0.365** [0.048] | -0.325** [0.048] |
| Log Trade Germany _{t-1} | IBRD=0 | 0.115 [0.186] | 0.103 [0.196] |
| | IBRD=1 | 0.757*** [0.003] | 0.676*** [0.005] |

Notes: Marginal effects for the interactions derived from table 6, columns 1 and 2. P-values are in brackets where *p<0.1 **p<0.05 ***p<0.01.

Table 8: Projects by region

| | (1) | (2) | (3) | (4) |
|--|---------------------------|--------------------|-----------------------|---------------------|
| | Latin America & Caribbean | Sub-Saharan Africa | Europe & Central Asia | East Asia & Pacific |
| Log GDPpc _{t-1} | 0.283 [0.910] | -1.012 [0.198] | 0.325 [0.880] | -0.009 [0.997] |
| Inflation _{t-1} | -0.714 [0.531] | 1.436 [0.160] | 1.574 [0.320] | 0.193 [0.955] |
| Current Account _{t-1} | 0.091*** [0.001] | 0.028** [0.031] | -0.029 [0.450] | 0.010 [0.797] |
| Trade Openness _{t-1} | 0.000 [0.978] | -0.008 [0.287] | 0.002 [0.949] | 0.004 [0.875] |
| RTA with USA | -1.786** [0.030] | | | |
| RTA with Japan | 14.557*** [0.000] | | | 0.755 [0.323] |
| RTA with EU | -13.376*** [0.000] | -22.325*** [0.000] | -2.690*** [0.002] | |
| GATT/WTO | 0.599 [0.161] | 0.013 [0.965] | 0.895 [0.197] | -0.941** [0.037] |
| Under IMF Program _{t-1} | -0.314 [0.397] | -0.213 [0.246] | -0.270 [0.517] | 0.568 [0.483] |
| Total no. of Conditions (without trade conditions) | -0.004 [0.608] | 0.016*** [0.000] | 0.012* [0.068] | 0.000 [0.985] |
| Number of Prior Trade Conditions | 0.007 [0.672] | -0.034*** [0.000] | -0.176* [0.060] | -0.013 [0.623] |
| Legislative Constraints _{t-1} | -0.082 [0.523] | 0.009 [0.877] | -0.210* [0.089] | -0.221 [0.729] |
| Election _{t-1} | 0.978*** [0.010] | -0.114 [0.493] | 0.958** [0.018] | 0.121 [0.758] |
| Log Trade US _{t-1} | -1.681* [0.060] | -0.373 [0.136] | 0.549 [0.444] | -1.210** [0.013] |
| Log Trade Japan _{t-1} | 0.257 [0.614] | 0.237 [0.240] | -0.547** [0.022] | -0.235 [0.682] |
| Log Trade UK _{t-1} | -0.725*** [0.003] | -0.655*** [0.000] | 0.108 [0.719] | 0.185 [0.886] |
| Log Trade France _{t-1} | -0.308 [0.550] | 0.305** [0.038] | -0.741 [0.164] | -1.103* [0.067] |
| Log Trade Germany _{t-1} | 2.577*** [0.000] | 0.532** [0.012] | 1.205* [0.071] | 2.325** [0.016] |
| Constant | 1.054 [0.963] | 7.800* [0.093] | -15.178 [0.302] | 5.638 [0.666] |
| Observations | 240 | 273 | 156 | 80 |
| McFadden R ² | 0.172 | 0.0952 | 0.0984 | 0.0384 |
| BIC | 572.2 | 884.9 | 306.2 | 240.8 |

Notes: Dependent variables: total number of trade conditions in project i. Samples are restricted by region of the recipient: Latin America & Caribbean (column 1), Sub-Saharan Africa (column 2), Europe & Central Asia (column 3), East Asia & Pacific (column 4). Standard errors are clustered at the country-level. All estimations include a time trend, sector and country dummies. P-values are in brackets where *p<0.1 **p<0.5 ***p<0.01.

APPENDIX

A 1: Summary Statistics

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|----------------------------------|-----|----------------|----------------|--------|-----------------|
| Dependent Variables | | | | | |
| Trade Conditions | 915 | 2.07 | 4.20 | 0 | 35 |
| Trade Conditions (Prior Actions) | 915 | 1.30 | 3.07 | 0 | 31 |
| Trade Conditions (Benchmarks) | 915 | 0.76 | 1.97 | 0 | 25 |
| General Controls | | | | | |
| GDPpc | 915 | 1853.08 | 1982.06 | 102.20 | 10491.08 |
| Inflation | 915 | 0.12 | 0.15 | -0.09 | 0.99 |
| Current Account | 915 | -4.47 | 6.07 | -42.05 | 14.89 |
| Under IMF Program | 915 | 0.30 | 0.46 | 0 | 1 |
| Total Conditions in Project | 915 | 32.37 | 24.82 | 1 | 190 |
| Trade Openess | | | | | |
| Trade Openess | 915 | 64.86 | 34.60 | 6.32 | 256.36 |
| RTA with USA | 915 | 0.06 | 0.24 | 0 | 1 |
| RTA with Japan | 915 | 0.03 | 0.18 | 0 | 1 |
| RTA with EU | 915 | 0.13 | 0.34 | 0 | 1 |
| GATT/WTO | 915 | 0.83 | 0.38 | 0 | 1 |
| Sum of Prior Trade Conditions | 915 | 24.09 | 22.04 | 0 | 92 |
| Recipient Interest | | | | | |
| Legislative Constraints | 878 | 6.17 | 1.58 | 1 | 7 |
| Legislative Election | 878 | 0.22 | 0.41 | 0 | 1 |
| Commercial Interest | | | | | |
| Trade with US | 908 | 11,700,000,000 | 41,000,000,000 | 0 | 316,000,000,000 |
| Trade with Japan | 908 | 2,500,000,000 | 6,230,000,000 | 0 | 56,200,000,000 |
| Trade with UK | 908 | 1,090,000,000 | 2,010,000,000 | 0 | 14,000,000,000 |
| Trade with France | 908 | 1,440,000,000 | 2,410,000,000 | 0 | 17,600,000,000 |
| Trade with Germany | 908 | 2,890,000,000 | 7,010,000,000 | 0 | 87,400,000,000 |
| Geo-Strategic Interest | | | | | |
| UNGA voting with US | 912 | 0.30 | 0.11 | 0.10 | 0.63 |
| UNGA voting with Japan | 912 | 0.73 | 0.06 | 0.49 | 0.88 |
| UNGA voting with France | 912 | 0.64 | 0.08 | 0.45 | 0.87 |
| UNGA voting with UK | 912 | 0.61 | 0.09 | 0.42 | 0.87 |
| UNGA voting with Germany | 912 | 0.69 | 0.09 | 0.47 | 0.92 |
| UNSC Membership | 905 | 0.10 | 0.30 | 0 | 1 |
| Project Sectors | | | | | |
| Agriculture | 915 | 0.06 | 0.23 | 0 | 1 |
| Administration | 915 | 0.43 | 0.50 | 0 | 1 |
| Information&Communication | 915 | 0.00 | 0.06 | 0 | 1 |
| Education | 915 | 0.04 | 0.20 | 0 | 1 |
| Finance | 915 | 0.11 | 0.32 | 0 | 1 |
| Industry | 915 | 0.13 | 0.33 | 0 | 1 |
| Energy | 915 | 0.04 | 0.20 | 0 | 1 |
| Multisector | 915 | 0.01 | 0.09 | 0 | 1 |
| Transport | 919 | 0.01 | 0.09 | 0 | 1 |
| Social Services | 915 | 0.06 | 0.24 | 0 | 1 |
| Water | 915 | 0.02 | 0.14 | 0 | 1 |

A2: Data Sources

| | | |
|----------------------------------|---|--|
| Openness | Sum of imports and exports as share of GDP. | World Development Indicators, World Bank (2012c) |
| GDP p.c. | GDP per capita in constant 2000 USD. | World Development Indicators, World Bank (2012c) |
| Inflation | Inflation as annual % increase in consumer prices (CPI), transformed in the following: $(CPI/100)/(1+(CPI/100))$ | World Development Indicators, World Bank (2012c) |
| Current Account | The sum of net exports of goods, services, net income, and net current transfers as share of GDP. | World Development Indicators, World Bank (2012c) |
| Under IMF Program | Dummy coded 1 if country is under IMF program. | Dreher (2006); IMF annual reports |
| GATT/WTO Dummy | Coded as 1 beginning the year of joining the GATT/WTO, 0 otherwise. | WTO (2013) |
| RTA Dummy | Coded bilaterally for agreement partnering the USA, Japan and the EU. Coded as 1 if a regional trade agreement is in place and 0 otherwise. | WTO (2013) |
| Total Number of Conditions | Number of conditions in project i excluding trade conditions. | Development Action Database, World Bank (2012b) |
| Total Number of Trade Conditions | Number of conditions in project i grouped under “Trade and Integration” that include trade specific conditions. | Development Action Database, World Bank (2012b) |
| Number of Prior Trade Conditions | Sum of trade conditions in projects of country i until $t-1$. | Development Action Database, World Bank (2012b) |
| Legislative Constraints | Measure for political competitiveness in the legislature, ranges from 1 (no legislature) to 7 (largest party has less than 75% of seats). | Database of Political Institutions, Beck et al. (2001) |
| Legislative Elections | Dummy coded 1 in years of legislative elections. | Database of Political Institutions, Beck et al. (2001) |
| Bilateral Trade | Log of total trade of donor i with recipient j | World Integrated Trade System, World Bank (2013) |
| UNGA voting | Share of recipient i voting in line with country j in the UN General Assembly. | Dreher and Sturm (2012) |
| UNSC | Dummy for being temporary member on the UN Security Council. | Dreher <i>et al.</i> (2009b); www.un.org |