The Bargaining Power of Borrower Countries and the World Bank's Conditionality

Zhai Zheng

Draft December 12th, 2023

Abstract

Where does the bargaining power of borrower countries in the World Bank come from, does the bargaining power enable the borrower countries to receive less stringent loan conditions? I argue that the bargaining power of borrower countries is related to their financial importance to the World Bank. While the capital contribution is the most direct form of financial contribution, borrowers also make other forms of financial contributions to help the World Bank maintain the financial stability and fulfill the development mandate. Premier borrowers, the large and creditworthy borrowers, make much more financial contributions to the World Bank than other borrowers, thus they gain higher bargaining power as well. Such bargaining power helps the premier borrower countries to receive favorable treatment from the World Bank. Through analyzing the World Bank's policy loan conditions from 2005 to 2021 with a new framework, I find that premier borrowers are likely to receive less stringent conditions. The finding is important for us to understand the power dynamics in the World Bank beyond the formal governance structure.

1. Introduction

Borrower countries in the World Bank hold a dual identity as borrowers and shareholders. First, as borrowers, they have the eligibility to borrow from the World Bank. The Board of Directors (BoD), which serves as the key decision-making body in the World Bank, determines the amount of loans that individual borrowers can receive and their share in the World Bank's overall loan portfolio.

Second, as shareholders, they contribute capital to the institution as other non-borrower shareholders. The capital amount they contribute is determined by the existing voting structure. In other words, borrower shareholders cannot unilaterally increase their capital contribution to the World Bank to improve their positions without the consent of other non-borrower shareholders.

The World Bank is dominated by non-borrower shareholders, meaning that the total voting shares of borrower shareholders are lower than those of non-borrower shareholders. Thus, most studies focus on analyzing the influence of non-borrower shareholders (especially the U.S.) on the World Bank, while few studies explore the influence of borrowers in the World Bank and how they leverage such influence to pursue their interests.

In this paper, I argue that the bargaining power of borrower countries is related to their financial contributions to the World Bank, and the direct capital contributions (based on voting structure) is not the entire financial contributions. They also make financial contributions to the World Bank in various other ways. Although these financial contributions cannot directly increase their influence through additional voting shares, they transform into intangible bargaining power for the borrowing countries, influencing their relationship with the World Bank. Those borrower countries that are more financially important to the World Bank and have lower demand for the World Bank loans (premier borrowers) will have higher bargaining power. This bargaining power will ultimately help them to receive less stringent loan conditions from the World Bank.

This paper contributes to the literature from two aspects. First, it contributes to the literature of the

political economy of the World Bank. Specifically, it shed light on the bargaining power of borrower countries in the World Bank from the financial perspective of the organization, going beyond the traditional analytical framework of governance structure. After all, the World Bank, as a key international organization, is a "financial institution" first. The operational logic of financial institutions may influence the political relationships among different parties within the organization. In other words, the voting shares is not the only source of "power" for borrower countries. Other forms of financial contributions and their implications for the bargaining power need to be further analyzed. Unfortunately, existing IPE literature on World Bank has not given enough attention to this issue. This paper aims to fill this gap.

Second, this paper contributes to the literature of World Bank conditions by creating a new analytical framework to assess the stringency of conditions. Existing literature on the World Bank's loan conditions is not sufficiently comprehensive and systematic, especially regarding the details of conditions. Through text analysis, I conduct a thorough examination of the World Bank's loan conditions across four stringent dimensions. Building upon this analysis, I investigate whether there are significant differences in the stringency of conditions imposed by the World Bank on various borrowing countries. The analytical framework and conclusions can deepen our understanding of the content of World Bank conditions as well as the political economy of World Bank conditions.

This paper will be structured as follows. Firstly, I will define the "premier borrower" in my study, which is a group of borrower countries which I think have higher bargaining power against the World Bank. Then, I will explain the source of bargaining power held by the premier borrowers in the World Bank from the perspective of their financial importance to the institution. I will demonstrate why premier borrowers are more financially important to the World Bank compared to other borrowers, thus having a higher bargaining power against the institution. Next, I will analyze the preferences of borrower countries in World Bank with a focus on policy loan conditions, explaining why borrower countries prefer to receive policy loans with less stringent conditions. Then, I will introduce a new analytical framework to analyze the stringency of conditions. Lastly, I will do the regression analysis to prove that premier borrowers do receive less stringent conditions in the World Bank.

2. Overview of World Bank relations with borrower countries

The conventional wisdom suggests that borrower countries of the World Bank have limited influence because the existing voting structure grants more voting shares to non-borrower countries. According to this view, borrower countries passively accept whatever the World Bank offers them and have limited bargaining power to negotiate better loan conditions and policies that suit their needs. However, this traditional argument overlooks several important points:

Firstly, it fails to recognize the varying financial contributions of different borrowers to the World Bank and treats all borrowers as equal. Countries like China, Brazil, and Mexico undoubtedly contribute far more financially than a low-income country in Africa. Secondly, it fails to consider the different level of importance of World Bank lending to each borrower. World Bank's loan means much more to a low-income country in Africa than to countries like China, Brazil and Mexico.

The limitations of the traditional argument have resulted in a lack of comprehensive and objective analysis of the relationship between the World Bank and different borrower countries. It tends to assume that major non-borrower shareholders can always influence World Bank decisions whenever they want and affect the policies and loan terms for all borrower countries. As Kapur, Lewis, and Webb (1997, 263) argue: "Loans made despite strong opposition by the US are the exception". Another argument believes that the World Bank's culture, bureaucrat's ideology and interest dominate its relationship with borrower countries (Lee and Woo 2022; Moloney 2022; Weaver 2008; Winters and Streitfeld 2018). In this paper, I will mainly focus on the bargaining power of borrower countries and argue that their bargaining power is related to their financial importance to the World Bank. Before going to the theory part, I will first define the "premier borrower".

Definition of premier borrower

Premier borrowers are defined as those "**large and creditworthy**" borrower countries that possess both strong loan absorptive capacity and low country risk. The concept of premier borrower in my study is similar to the "large middle-income borrower countries (MICs)" often mentioned in previous

studies (Kirk 2012; Linn 2004; Humphrey 2022a; Güven 2017). A basic argument is that since these countries have less demand towards World Bank loans, they are thought to be more powerful and have more bargaining power in international organizations compared with other borrower countries. For example, through interview, Humphrey (2022a, 110–11) argues that large MICs have more leverage in making the World Bank loan conditions to be better in line with their needs, while other borrower countries face more burdensome conditions from the World Bank. Güven (2017) also raises the argument that large MICs enjoy greater policy-making autonomy and obtain more infrastructure loans from the World Bank than other countries. Kirk (2012) concludes through a case analysis of the World Bank's country strategy towards India that the World Bank needs for India outweighs India's demand for the World Bank. As a result, India can take the lead in shaping the World Bank's policies towards the country.

However, I think financial contributions of borrowers to the World Bank is more closely related to the creditworthiness of the borrowers (as I will illustrate below), rather than the absolute income level. Thus, while a country's income and creditworthiness are positively correlated to some extent, I emphasize the creditworthiness to define "premier borrower".

3. Financial importance of premier borrowers and their bargaining power

Traditional argument believes that the leverage of member state in an international organization mainly comes from their voting share.

The traditional view suggests that a member country's bargaining power in international organizations primarily depends on its voting share within the organization. The higher the voting share a country holds, the greater its influence within the organization. Since the major shares in the World Bank are still controlled by developed Western countries, particularly the United States (Strand and Trevathan 2016), borrowing countries have relatively low bargaining power derived from their voting rights. Even countries like China, the third-largest shareholder in the World Bank, face great difficulties in competing the influence of the United States within the institution. However, this does not imply that borrowing countries are unable to acquire bargaining power through other channels within the organization.

Previous studies explored whether a borrowing country's special status, such as UNSC temporary member and Board membership, can result in additional benefits such as increased loans and fewer loan conditions within the World Bank and IMF (Dreher, Sturm, and Vreeland 2009b, 2009a; Kaja and Werker 2010). This special status can be seen as a country's "political leverage". Nevertheless, there is limited research analyzing the issue from the perspective of a borrowing country's "financial leverage". After all, international organizations like the World Bank or IMF primarily function as financial institutions, and their main concern is maintaining financial viability and sustainable operations. Therefore, the varying financial importance of different borrowing countries to these institutions can significantly influence the countries' "financial leverage" within the institution.

In the following section, I will delve into the analysis of the sources of borrowing countries' financial importance to the World Bank. This goes beyond the direct contribution of borrowing countries through repayment of World Bank loans. It also includes their financial contributions to the equity size, credit ratings, and overall quality of loan portfolio of the World Bank. To my knowledge, there is hardly any research that analyze the bargaining power of borrowing countries from the financial perspective. While a small body of literature (Ben-Artzi 2018; Humphrey 2016, 2017; Peitz 2023) highlighted how financing considerations of the World Bank and other MDBs impact their business models and operations, these studies did not further analyze how these financial considerations affect the internal political dynamics of the World Bank, particularly the bargaining power of borrowing countries.

The financial contribution of borrowing countries to the World Bank mainly stems from several aspects: income contribution through loan repayments, contribution to the enhancement of the Bank's capital utilization efficiency, contribution to the increase in the Bank's equity size, and contribution to maintaining the World Bank's triple-A credit rating.

- **Loan income contribution**

First, while the World Bank differs from commercial banks and private institutions in that it is not profit-driven and does not aim to maximize its profits, it still needs to maintain financial robustness and sustainable operations as a financial institution. Therefore, loan repayments from borrowers remain important to the World Bank. Borrowers which can generate substantial and stable income for the

World Bank are likely to be welcomed. Premier borrowers bear two characteristics which makes them favored by the World Bank. First, since they are large countries, they have a strong capacity to absorb large-scale loans. Second, because they have good credit conditions, lending to them bears a low default risk. The World Bank can expect to get stable loan repayment income from them.

In addition, premier borrowers also contribute to the support of low-income borrowers in the World Bank. This is because the hard loan window (IBRD), where the premier borrowers belong to, not only focuses on the development impact of its loans but also plays a significant role in generating profits to ensure that World Bank has enough ability the support the low-income borrowers in IDA. The income from hard loans is partially transferred to the soft loan window to support lending to low-income countries.

If the hard loan window fails to maintain a large loan portfolio and generate sufficient profits, it would have several consequences. Firstly, it would diminish the institution's global impact. Secondly, it would create difficulties for the World Bank in fulfilling its mandate to support low-income and high-risk countries. Therefore, maintaining a robust hard loan window is crucial for the World Bank to effectively carry out its mission and support countries in need (Linn 2004, 3).

Unlike commercial banks, where the interest rate charged is typically positively related to the borrower's risk level, the World Bank's loan pricing mechanism operates differently. The World Bank, as a development finance institution, follows a pricing approach that charges higher interest rates to wealthier borrowers (often more creditworthy countries) and lower rates to poorer borrowers (usually riskier countries). This mechanism is designed to align with the World Bank's principle of offering poorer countries with higher concessional level of loans.

As a result of this pricing mechanism, if two borrower countries receive the same amount of loans from the World Bank, the premier borrower, which has a better credit condition, will contribute more income to the World Bank compared to the poorer country.

Starting in 2018, the World Bank implemented a new loan pricing reform in IBRD. The objective of

this reform was to enhance the profitability of the World Bank's long-term loans by differentiating the loan pricing based on the income groups of borrowing countries. The World Bank classifies borrowing countries into four groups according to their income levels and charges varying interest rates accordingly. Countries with higher income levels face higher maturity premiums imposed by the World Bank[1].

This reform underscores the significance of premier borrowers in generating income for the World Bank. Furthermore, the World Bank's demand for large and reliable borrowers increased even more following the initiation of the debt relief program for impoverished countries after the IDA15 capital replenishment. The debt relief program led to reduced loan repayments and, consequently, greater reliance on donor funds. To mitigate dependence on donor contributions, the World Bank needs to rely more on the transfer of funds from IBRD and other internal resources (Kirk 2012, 143–44).

Bhattacharya and Kharas (2016) refer to the dilemma faced by Multilateral Development Banks (MDBs) as the tradeoff between development impact and portfolio quality. This tradeoff implies that in order to maximize the development impact in countries with lower creditworthiness, MDBs must first lend to countries with higher creditworthiness to generate sufficient financial returns.

- **Increase the World Bank's equity base**

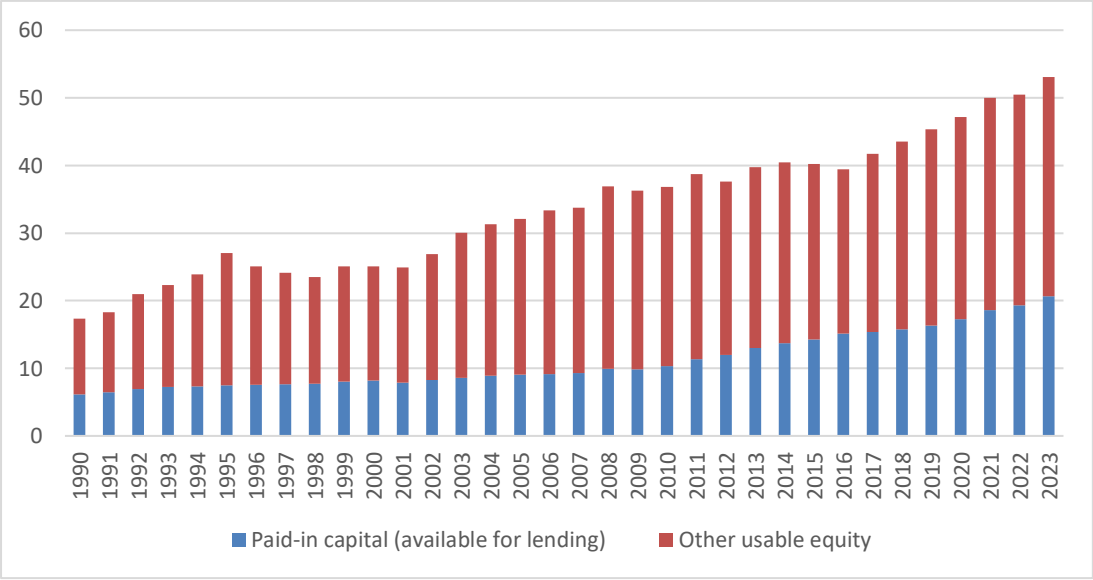
In addition to being crucial for the World Bank's income, loan repayments from borrowers also contribute to the expansion of the institution's equity base. This is because the generated loan income is converted into retained earnings, which ultimately becomes part of the World Bank's equity. The increase of equity base enhances the World Bank's lending capacity (based on the World Bank's prescribed E/L ratio restrictions). Such contribution to World Bank's lending capacity is particularly crucial considering the declining willingness of Western countries to consistently provide substantial capital to the institution (Humphrey 2022c, 86). In other words, the loan income contribution from borrower countries plays a substitutive role to the capital contribution of non-borrower member countries in terms of enhancing the World Bank's equity. As the World Bank strives to increase its

[1] For details, please see the press release in the World Bank website. https://www.worldbank.org/en/news/press-release/2018/07/13/changes-in-ibrd-loan-pricing-effective-july-1-2018

lending volume to meet the growing demands of developing countries, it increasingly relies on income generated from borrower countries to achieve this objective.

After analyzing the financial statements in World Bank's annual reports (Figure 1), it can be seen that in the IBRD usable equity, the share of paid-in capital (available for lending) is lower than other usable equity. In other words, the contribution from member states (paid-in capital) to the World Bank's equity is not as significant as imagined. Due to the data limitation, it is difficult to ascertain the precise contribution of borrowers' loan repayments to the equity of the World Bank. What we know from figure 2 is that retained earnings account for approximately 70% of total equity. The interest revenue from borrowers' loan repayments is transformed into retained earnings (after deducting expenses) before contributing to the equity. Therefore, it is fair to say that borrower countries play a crucial role in increasing the World Bank's equity, especially those borrowers that make great loan repayment.

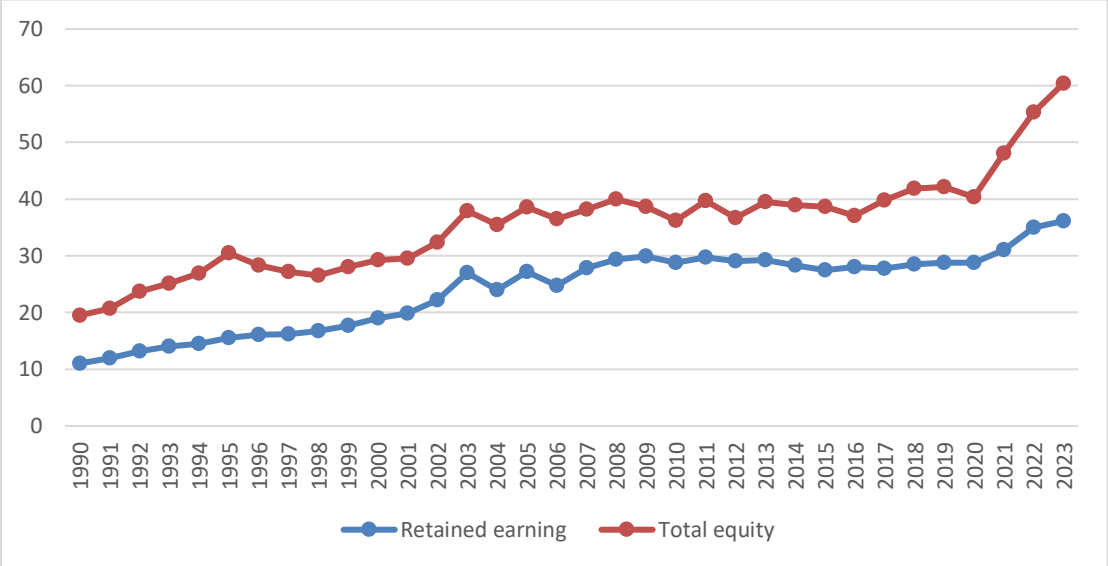
Figure 1: IBRD usable equity composition (billion USD)



Source: author's compilation based on the information in World Bank's annual reports[2].

[2] Paid-in capital (available for lending) equals the paid-in capital mins the net receivable for maintenance of value and restricted paid-in capital. World Bank annual report before 1998 only has "paid-in capital" data, but not paid-in capital (available for lending). So, I estimated the paid-in capital (available for lending) before 1998 based on the ratio of paid-in capital (available for lending) to total paid-in capital in 1998. Also, no "usable equity" data can be found in World Bank annual report before 1998, so I estimated that indicator based on the ratio of usable equity to total equity in 1998. Usable equity includes paid-in capital (available for lending), special reserves, general reserves, cumulative translation adjustment, and other adjustments.

Figure 2: IBRD equity and retained earnings (billion USD)



Source: author's compilation based on the information in World Bank's annual reports.

- **Improve World Bank portfolio quality and help maintain AAA credit rating**

Thirdly, premier borrowers play a crucial role in helping the World Bank maintain a good credit rating, which is vital for the institution to borrow funds at a low cost and subsequently lend at low interest rates (Gåsemyr 2018; Molinari and Patrucchi 2020). By maintaining stable lending relationships with premier borrowers who possess strong credit conditions, the World Bank can enhance the overall quality of its loan portfolio, thereby reducing the risks of loan defaults and non-accruals.

As a result of improved financial soundness, market investors gain greater confidence in supporting the World Bank financially. This, in turn, enables the institution to maintain its triple-A credit rating and reduces its reliance on funding from donor countries. Notably, major credit rating agencies incorporate the overall credit conditions of borrower countries when assessing the credit ratings of MDBs (Moody 2022; S&P Global Rating 2022). For instance, according to Moody's 2022 report, the World Bank's weighted average borrower rating (WABR) has remained around Ba2 and Ba3 since FY2008 (Moody 2022, 6).

If the World Bank reduces lending to premier borrowers or if premier borrowers actively decrease their borrowing from the World Bank, it would lead to a decline in the average borrower rating level,

negatively impacting the credit rating of the institution. Therefore, from the Bank's own perspective, it is in its best interest to maintain lending relationships with premier borrowers.

- **More effectively use the capital resource and strengthen the World Bank's lending capacity**

Fourthly, countries with good credit ratings also play a significant role in enabling the World Bank to utilize its capital resources more effectively, thereby facilitating increased lending capacity (Humphrey 2022b, 44; Peitz 2023, 17). This is because the capital adequacy ratio (CAR) formula, which calculates the ratio of capital to risk-weighted assets, assigns different risk weights to the assets (loans) based on the borrower's risk level. As a result, loans extended to countries with lower risk receive a lower risk weight in the calculation. This allows the institution to expand its lending capacity, releasing more loans and ultimately generating higher loan income. In contrast, if most of the World Bank's borrowers are high-risk countries, the World Bank will have to reduce the overall lending volume keeping the CAR ratio consistent. Therefore, the importance of premier borrowers is shown in its ability to help the World Bank to more effectively use its capital resources and expand its lending capacity.

Combining the four points above, it can be concluded that large creditworthy countries (premier borrowers) are financially important to the World Bank not only because they help the institution maintain a healthy financial condition, but also because they enable the institution to release more lending potential without compromising the credit rating.

- **Concentration risk**

However, there is one factor that limits the World Bank to expand lending to these countries, that is, the concentration risk. Concentration risk refers to the situation where the World Bank loans are highly concentrated in several major borrowers, while other smaller borrowers receive very limited loans. Credit rating agencies penalize concentration risk in MDBs by downgrading their credit ratings (Delikanli, Dimitrov, and Agolli 2018, chap. 3; Humphrey and Michaelowa 2013). For example, Standard & Poor's introduces a "single-name concentration penalization" for sovereign exposure when calculating the Risk-Adjusted Capital (RAC) of MDBs (S&P Global Rating 2022). Therefore, the World Bank and other MDBs are very concerned about loan concentration, particularly in avoiding excessive loans to countries with deteriorating credit conditions, even if these countries have significant demand

for development finance. At the same time, these traditional MDBs also limit the loan amounts to individual countries[3] and employ financial innovations such as loan swap to exchange the loan exposure with other MDBs to mitigate the negative impact on credit ratings caused by concentration risk (Molinari and Patrucchi 2020). This may restrict the total amount of loans to premier borrowers, but the financial importance of premier borrowers to the World Bank remains high.

In conclusion, the aforementioned factors highlight the financial significance of borrowers to the World Bank. Premier borrowers have the capacity to make greater financial contributions to the institution, making them more financially important in the eyes of the World Bank. This argument was aptly expressed by an Indian official who stated, "the World Bank needs India more than India needs it…because there are not too many borrowers with large demands and a credible record" (Kirk 2012, 18). Similar dynamics can be observed with other large and creditworthy borrowers, such as China, Brazil, and Mexico.

Moreover, the financial importance of premier borrowers to the World Bank becomes more prominent as the proportion of debt financing relative to donor capital increases in the World Bank's financing structure. This is because the increase in debt financing places a heavier burden on the World Bank in terms of debt repayment. As a result, the World Bank becomes more reliant on borrowing countries that can provide a significant and stable loan income, thereby granting these borrowers greater bargaining power.

Borrowers demand

The financial importance of borrowers is not the sole source of their leverage against the World Bank. Another part of the story stems from the borrowing countries' demand for World Bank's loans. If the loans from the World Bank are crucial to the borrower, their bargaining power against the World Bank tends to be relatively low. In such situations, borrowers are often compelled to comply with the orders

[3]. For example, IBRD sets the limit on the annual loan amounts to individual countries. Starting from FY2019, the Board of Directors adopted a dual Single Borrower Limit (SBL) system, setting different maximum loan amounts for countries above and below the Graduation Discussion Income (GDI) threshold (25.5 billion USD for countries below SBL, 18.7 billion USD for countries above GDI for FY23).
https://thedocs.worldbank.org/en/doc/77844b3f4182f7519f58add85ecaff3f-0340012021/original/IBRD-Flexible-Loan-IFL-Pricing-Basics-Product-Note.pdf

and rules set by the World Bank in order to secure the loan, even if some of these rules may not align with the borrowers' preferences. In contrast, if the borrower's reliance on World Bank loans is less significant (especially when they have access to more alternative sources of financing, both bilateral and multilateral), then the borrower's bargaining power is relatively high. As I will illustrate below, premier borrowers have less financial reliance on World Bank's loans than other borrowers. Therefore, premier borrowers are likely to have greater leverage to reject less borrower-friendly policies within the World Bank.

It is important to note that the relationship between the World Bank and premier borrowers differs from that of other borrowers. For ordinary borrowing countries, particularly less-developed nations, the concessional financing provided by the World Bank, including grants and concessional loans, is one of the few sources they can access to fund their development. Consequently, they become highly dependent on the World Bank's lending (Humphrey and Michaelowa 2019, 18). As a result, these countries strive to secure as many loans as possible, considering that the World Bank cannot fulfill the financing demands of all borrowers.

Furthermore, the World Bank's lending activities are closely monitored by private sectors (Robert Bazbauers and Engel 2021, 88). The borrower's actions regarding the World Bank loans, such as compliance with loan conditions and timely repayment, send a strong signal to private market investors about the borrower's creditworthiness (Weaver 2008, 57). Continuous access to loans from the World Bank signifies recognition of the borrower's economic management and governance quality by the World Bank. This, in turn, increase the confidence of market investors to invest in the country. From this perspective, World Bank loans can contribute to attracting private investment in developing countries. Consequently, borrowers have a strong incentive, based on rational considerations, to strive for more World Bank loans as a proof to market investors that the country is a trustworthy investment destination. Such motivation further deepens the borrower's financial reliance on the World Bank.

However, for premier borrowers, the situation is somewhat different. Premier borrowers generally exhibit a lower level of financial reliance on the World Bank compared to other borrowing countries. As the economic development level improves and financing channels expand in these countries, the

World Bank gradually reduces the allocation of soft loans and replaces them with close-to-market-rate loans (with interest rate increases as the country's income level rises). Consequently, the relative advantage of concessional loans compared to other financing sources diminishes. Furthermore, as these countries experience growth in economic strength and fiscal capacity, they gain greater financial capability and access to a wider range of financing options in the market, such as foreign direct investment (FDI) and sovereign bond issuance. This further reduces their reliance on World Bank loans. Premier borrowers' demand for World Bank loans is more elastic, meaning that the will only have higher demand when the Bank's lending policies align more closely with their interests and preferences (Humphrey and Michaelowa 2013).

It is important to note that the relationship between premier borrowers and the World Bank does not imply that World Bank loans have almost no value for premier borrowers. It is simply that the significance of the "money" itself is less crucial, and the value of the loan is reflected more in the "soft" parts (Gåsemyr 2018; Güven 2017, 500; Humphrey 2022b, 49).

Firstly, concessional loans from the World Bank remain essential for underdeveloped regions within countries that lack strong fiscal capacity or access to financial markets. For instance, despite China's national income level surpassing the World Bank's graduation line, China continues to be a major recipient of World Bank loans. This is attributed to significant income disparities across different regions within China, enabling impoverished areas to remain eligible for borrowing from the World Bank based on their regional income level (Huenemann 2014).

Secondly, the development knowledge and experience provided by the World Bank are highly valued by developing countries. As a knowledge bank, the World Bank offers crucial guidance, expertise, and know-how for developing countries to enhance their income levels and address various social and economic challenges (Gåsemyr 2018; Güven 2017, 500; Humphrey 2022b, 49; World Bank 2012, 17). World Bank projects often have a demonstration effect, introducing advanced ideas and practices that stimulate innovation and reforms in recipient countries.

Thirdly, being recognized as a "World Bank eligible borrower" has strong symbolic meaning.

Maintaining this status helps borrowing countries retain their classification as "developing countries", which is advantageous in obtaining benefits reserved for developing countries in other international organizations like the World Trade Organization (WTO)[4].

Therefore, while the direct financial reliance of premier borrowers on the World Bank is relatively low, World Bank loans are still valuable in soft parts such as providing financing for lagged regions, delivering development knowledge and expertise, and helping the borrow country to maintain the "developing country" title. However, objectively speaking, the importance of World Bank loans to premier borrowers is not comparable to that of other borrower countries. Consequently, premier borrowers will pay more attention on the specific terms and conditions of the loan and be less tolerant to the less borrower-friendly conditions.

Combining the level of financial importance of borrowing countries to the World Bank and their demand for the World Bank loans, I argue that premier borrowers have high financial importance to the World Bank but limited loan demand. Therefore, compared to other borrowing countries, premier borrowers have greater bargaining power within the World Bank.

Table 1: Summary of factors relevant to borrower's financial importance and bargaining power

Factors	**Effect on borrower's bargaining power**	**Explanation**
Borrower's high loan absorptive capacity	Increase	1. Contribute more income to the World Bank through loan repayment. 2. Increase World Bank's equity, reducing World Bank's reliance on donor's capital.
Borrower's good credit condition	Increase	1. Use World Bank capital more efficiently to help expand World Bank lending capacity. 2. Improve World Bank loan portfolio quality.
Borrower's low demand	Increase	Borrower has less reliance on World Bank's loan
Concentration risk	Decrease	Credit rating agencies penalize World Bank for concentration risk

[4] Interview to Chinese officials in Treasury Department acknowledges that the significance of keeping the borrower's eligibility in the World Bank is high.

In the next section, I will focus on elucidating the loan preferences of borrowing countries, thereby explaining what they seek to obtain when they have increased bargaining power.

4. Borrower's preferences and World Bank's policy loan conditions

Due to the dominance of Western countries in the World Bank, many policies are influenced by these Western countries and may not fully reflect the needs of borrowing countries. "Hassel factors" in the World Bank, such as slow loan approval processes, inflexible safeguard policies, and different conditionalities attached to policy loans, reduce the attractiveness of World Bank loans for borrowing countries (Humphrey 2015, 13–18). Therefore, borrowing countries have long been calling for World Bank reforms to develop more policies that are favorable to borrowing countries and meet their needs.

It comes as no surprise that all borrowing countries hope to obtain more loans from the World Bank. However, not all borrowing countries are willing to accept the less-borrower-friendly policies and loan conditions, because this would impose additional burdens (Humphrey and Michaelowa 2013).

For premier borrowers, since they have high bargaining power against the World Bank as analyzed above, consequently, they will be less tolerant to those less-borrower-friendly policies and loan conditions in the World Bank than other borrowers. If the World Bank cannot meet the demands of premier borrowers in these aspects, then premier borrowers are likely to lower their demand to World Bank loans, which leads to the decrease of loan income to the World Bank. The bargaining power of borrowers will also make the World Bank hard to compel these countries to accept its policy recommendations. Premier borrowers will selectively consider the advice provided by the World Bank based on their own needs and preferences.

The following empirical analysis will focus on the conditions of World Bank policy loan (development policy loan, DPL). I argue that borrower countries prefer to receive policy loans but dislike the stringent conditions attached in the loans. So, if one borrower country receives less stringent conditions from the World Bank, it is a sign of borrower's bargaining power against the World Bank after controlling

other possible factors.

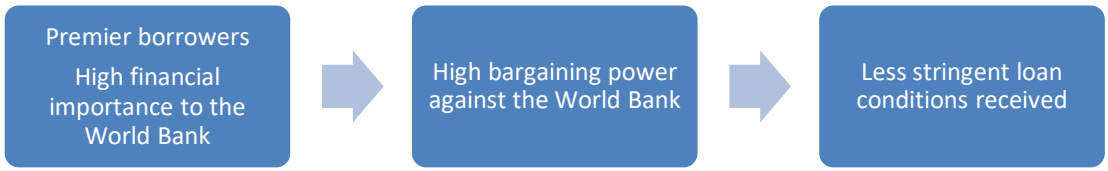
Policy financing helps address the borrower's government budget deficit and balance of payment (BOP) imbalance while promoting the government's policy and institutional reforms through offering the fast-disbursing budget financing directly to the government. Based on the agreement between the borrowing country and World Bank, the borrowing country needs to implement the designated policy and institutional reforms either before or during the disbursement period of policy financing. Policy loans emerged and were widely used during 1980s (known as "structural adjustment loan (SAL)" at that time) to promote liberal economic reform (free trade, government spending cut, privatization, etc.) in developing countries (Robert Bazbauers and Engel 2021, 91). It is also increasingly used during the crisis years (such as 1997 and 2008 financial crisis) when the contingency fund is urgently needed by many countries suffering the economic shocks during the crisis.

Borrowing countries generally prefer the policy loan from the World Bank because it gives the borrowing government greater flexibility and autonomy, using the borrower's own system and implementing based on its own situation. It is also a faster-disbursing instrument which allows the borrower's government to get the loan quickly compared with investment loans. This is attractive to borrowing countries given the fact that traditional MDBs are usually associated with lengthy loan review process which delays the time for the borrowing countries to really get the loan (Humphrey 2022c, 99). For those borrowing countries with an urgent need of foreign capital to address domestic liquidity problem, policy loan is definitely a good choice.

However, there is severe cost for the borrowing government if the policy loan is associated with many conditions attached. Borrowing government has to make many compromises in policy making, following the requirements of international organization rather than its own will. They could also face domestic opposition for accepting stringent loan conditions from international organizations (Vreeland 2007, chap. 3).

Combining these two factors, I argue that the borrowing country prefers to receive policy loans with less stringent conditions from the World Bank. Borrowing country with high bargaining power are more

likely to realize that.



By comparing the stringency of loan conditions provided by the World Bank to premier and non-premier borrowers, I aim to examine whether premier borrowers are more likely to get less stringent conditions. Thus, the following hypothesis will be tested.

Hypothesis:

Premier borrowers are likely to receive less stringent loan conditions compared with other borrowers.

To test this hypothesis, a proper way to measure the stringency of conditions is needed. In this study, I designed a new analytical framework for measuring the stringency of World Bank conditions. This framework is based on the content analysis of World Bank conditions.

5. A new analytic framework of World Bank conditions' stringency

It's never an easy job to assess the stringency of conditions from international organizations. Previous studies mainly use the number of conditions as a proxy of stringency (Clark and Dolan 2021; Cormier and Manger 2018; Dreher 2004; Dreher and Jensen 2007; Gould 2006; McLean and Schneider 2014; Vreeland 2007). The weakness of this approach is obvious: it does not consider the content of the conditions. Another classic way is to use the scope of conditions (Clark 2022; Dreher, Sturm, and Vreeland 2015; McLean and Schneider 2014; Stone 2008), assuming that the broader the scope of condition (more sectors or themes covered), the more stringent the condition is.

Beyond that, the topic and nature of the conditions are taken into consideration by scholars in

measuring the stringency. This mainly applies to IMF conditions since it has clear condition classification of condition. For example, IMF conditions can be classified into binding conditions (prior actions and performance criteria) and non-binding conditions (benchmark). Many studies point out that binding conditions are more stringent than non-binding conditions because failing to comply with binding conditions will directly lead to the suspension of loan disbursement, which is not necessarily the case for non-compliance of non-binding conditions (Gould 2006; Rickard and Caraway 2014; Dreher, Sturm, and Vreeland 2015; Vadlamannati and Brazys 2023).

What's more, different topics of the conditions may indicate different level of stringency, as some topics are thought to be more stringent than others. For example, several papers use the number of labor conditions from IMF as an indicator of stringency based on the idea that labor reforms are painful for domestic population (Copelovitch and Rickard 2021; Rickard and Caraway 2014). Somes other studies classify the topics of conditions (Cormier and Manger 2018; Clark and Dolan 2021; Clark 2022). For example, Clark and Dolan (2021, 25) compare the topics of IMF and World Bank conditions and argue that IMF conditions are generally more stringent because it focus more on financial reforms, fiscal policies and debt management, while World Bank conditions concentrate more on areas such as revenue, taxation, redistribution, and institutional reforms. While this topic-based analytical approach makes sense to some extent, I believe it does not adequately reflect the content of the World Bank loan conditions.

Compared to the large number of studies on IMF conditions, there is relatively less literature studying World Bank conditions. I read all the conditions of World Bank policy loans from 2005 to 2021 (944 policy loans with 8609 conditions)[5] and design a new framework to assess the condition stringency based on four dimensions. I believe that such an analytical framework can better assist us in understanding the content of World Bank conditions. Many differences among the conditions lie in the details, so only through a comprehensive and meticulous analysis of the condition content can we better assess the stringency of the conditions.

[5] Development Policy Operations: Prior Actions Database, World Bank, accessed on June 15th, 2023. https://www.worldbank.org/en/what-we-do/products-and-services/financing-instruments/development-policy-financing.

5.1 The dimensions of the stringency of conditions

In order to measure the stringency of conditions, the first step is to decide the dimensions that can be used to assess the stringency. Here, I list four dimensions:

- Difficulty of implementation
- Scope of impact
- The potential political and social risk
- The degree of constraint on borrower's behavior

- **Difficulty of implementation**

The first dimension is the difficulty of implementation, which refers to the difficulty of the borrower government to implement the World Bank conditions. The higher the difficulty of implementation, the more stringent the condition is.

Here, I assess the difficulty of implementation based on whether the condition involves laws. I argue that the conditions related to laws is more difficult to implement. This is because passing the laws requires the approval from the parliament/congress, which goes beyond the government's authority, making it the most difficult one to implement (Humphrey 2022c, 110). IMF also attempted to use this idea to measure "depth" of conditions and argue that "the legislative change brings about long-lasting change in institutional environment" (Independent Evaluation Office, IMF 2007, 5–7).

In addition, the enactment of laws is most time-consuming because of the lengthy legislative process, which also increases the difficulty of implementing the condition. In other words, the government may need to take a longer time to get the policy loan from the World Bank, which offsets the fast-disbursing advantage of policy loan. In comparison, the government spends relatively less time formulating policies, strategies, plans, and taking specific actions to implement plans. Therefore, for those borrowing countries which want to quickly obtain World Bank's lending, accepting conditions of laws is definitely not their optimal choice.

Some may challenge this opinion by arguing that even the same law-related condition would have different levels of implementation difficulty in different countries because of the significant differences of their judicial systems and political institutions. Some scholars also question the objectivity of coding the conditions based on this criteria (A. Kentikelenis and Stubbs 2023, 56). I admit that my criterial is not perfect. However, I believe the rich content of conditions should not be sacrificed just to maintain the absolute objectivity and accuracy in measurement. After all, it is the content itself, not the number of conditions, that determines the real stringency of conditions.

Operationalization

I read all the conditions of World Bank policy loans (DPL) from 2005 to 2021 and manually categorized them based on their content.

Conditions related to laws refer to the World Bank's requirement for governments to prepare, formulate, amend, and promulgate relevant laws or conduct legal amendments. The enactment of these laws requires approval through parliamentary processes. The laws cover diverse categories, including economic law, social law, administrative law, civil and commercial law, procedural law (litigation and non-litigation), and criminal law. I use the keywords (including law, code, bill, legislation, amendments, Act) to search for relevant conditions first, and then read those conditions to make sure that the conditions belong to this category. It should be noted that the government enforcement/implementation of enacted laws does not belong to this category.

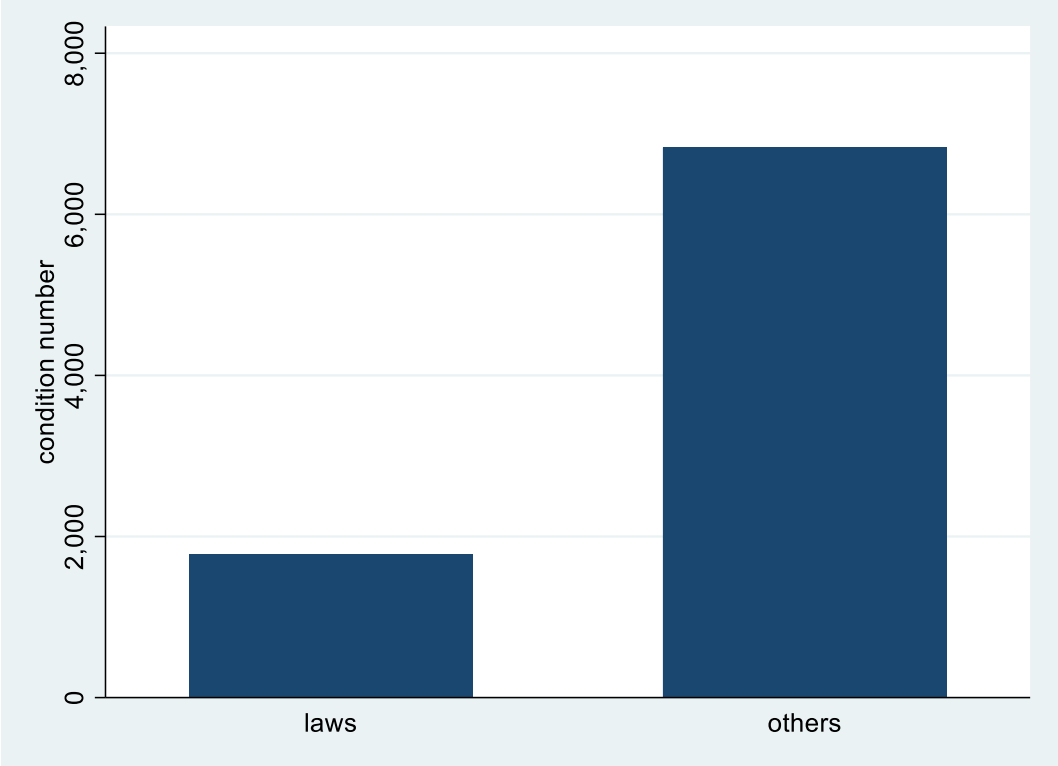
Besides the law-related conditions, there are other types of conditions involving government policies, institutions, and specific actions. One type of condition is about the policies, strategies, and action plans formulated by the borrowing government to achieve specific objectives, as well as the establishment of norms and institutions for the management and adjustment of societal affairs. The development of policies and institutions is entirely under the control of the government and does not require approval from the parliament. Examples of conditions related to policies and institutions include the formulation of policies and strategies (fiscal policy, debt policy, tax policy, climate change policy, private sector

development strategy, and green growth strategy, etc.), development plans (national budget plans, national medium to long-term development strategies and action plans, sectoral development plans, etc.), the issuance of administrative regulations/laws/decrees/orders, and the establishment of management systems (such as budget management systems, human resources management systems, and land management systems).

Another type of condition is about the government-specific actions, which refers to the specific actions undertaken by the borrowing government to implement laws, regulations, and government policies and institutions. This type of condition primarily involves more technical and operational issues, which is relatively easy to implement compared with legislative change. Examples of specific actions include data collection, information disclosure, audits, risk assessment, standardization, performance evaluation, tax registration, budget forecasting, cost estimation, and the establishment of a single account.

Through classification, I find there are 1780 conditions related to laws, accounting about one fifth (20.6%) of the total. Brazil, Morocco, Peru, Turkey, and Columbia are the top five recipients of law-related conditions.

Figure 3: Share of law-related conditions



- **Scope of impact**

The second dimension is the scope of impact, which refers to how many people and/or areas will be affected when implementing one condition. The broader the scope of impact, the stricter the conditions.

One characteristic of World Bank policy loan conditions is that not all loan conditions are implemented at the national level. Some conditions are implemented at the local level (provincial/district/subnational level), which aims to promote policy and institutional reform at local level. National-level conditions are supposed to have a broader impact than local-level conditions, so the government will be more cautious in implementing national-level policies and reform especially in those crucial policy areas that involve the core national interests, such as fiscal and trade policies and social development policies. If the borrowing country does not have an urgent need for the World Bank's lending, the country may be reluctant to accept the stringent national-level policy and institutional reform requirement. Instead, the country may choose to first implement reforms at the local level and then decide whether to promote them nationwide based on the results.

Besides the local-level conditions, World Bank also has some pilot program conditions, meaning that

the policy reforms and practices proposed by the World Bank will first be experimented within a small scope. For example, in Senegal, in order to implement the new civil service remuneration strategy, the country adopted a pilot program to decentralize the health sector staff (Project 091051). In Thailand, to improve the links between sector policies and budget requests, the country piloted an e-budget system in the government's line ministries (Project 114154). These pilot conditions narrow the scope of impact, thereby lowering the stringency of the condition. If one pilot policy reform or practice turns out to be less effective or even detrimental in the eyes of the borrower country, the country can choose not to extend it to other areas.

For the World Bank, local-level and/or pilot conditions are easier to negotiate, which can accelerate the World Bank loan disbursement, contributing to the increase of loan income to the institution. For the borrowing country, accepting local-level and/or pilot conditions also shows its bargaining power against international organizations: the borrower government will not lose much policy-making discretion in one particular field after accepting these loan conditions.

In conclusion, since local-level and pilot conditions have a narrower scope of impact to borrower country, their level of stringency are likely to be lower as well.

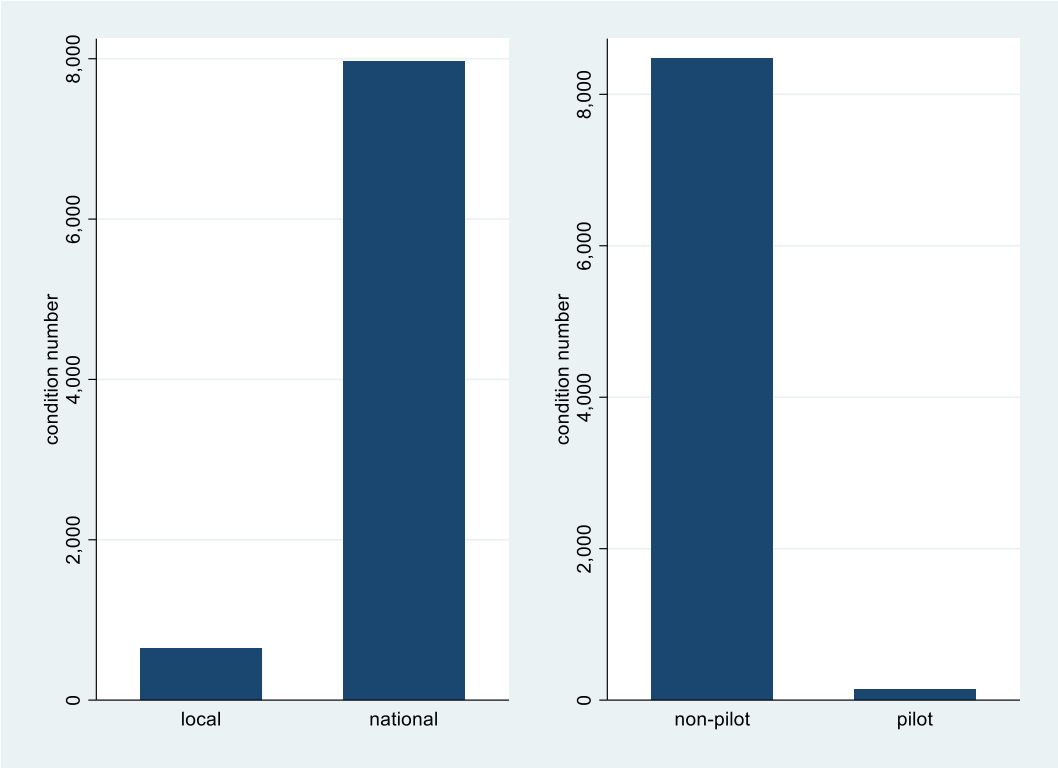
Operationalization:

To identify the local-level conditions, I follow two steps. First, I checked the "project name" of each policy loan. If the "project name" contains the name of a city, province or region, then it is considered a local-level project, and all conditions under this project are classified as local-level conditions. Second, I went through the content of the remaining conditions. If it contains the name of a city, province or region name or specifies that the condition is going to be implemented in certain places, not the entire country, then that condition is categorized as a local-level condition. Through this operation, I find that there are 643 local-level conditions (out of 8609 conditions in total), with the majority concentrated in a few large countries such as Brazil, China, India, Nigeria, Pakistan, and Vietnam. Additionally, it appears that several large countries have a particular inclination towards local-level conditions. For example, the only two policy loans that China received from the World Bank are both local-level loans (one in Hunan

province and one in Dadukou district in Chongqing). Similarly, India and Brazil also predominantly borrow local-level policy loans. Out of the 23 and 26 policy loans that India and Brazil received from 2005 to 2021, 15 and 20 loans are at the local level, respectively.

To identify "pilot program" condition, I use the keyword "pilot" to filter out relevant conditions and carefully read through those conditions to confirm them. Through this process, 139 conditions are identified as pilot conditions. Rwanda, Indonesia, Vietnam, Brazil, and Ghana are the top five recipients of pilot conditions.

Figure 4: Share of local and pilot conditions



- **The potential political and social risks**

The third dimension involves the potential political and social risks associated with the conditions. World Bank conditions cover a wide range of sectors and themes, including traditional economic sectors (fiscal, finance, trade, etc.), social and human development sectors (education, healthcare, environmental protection, food security, natural resource management, urban and rural development, gender), and

public sector reform (judiciary reform, public administration, institutional strengthening and capacity building). However, not all conditions are equally "costly" in the eyes of borrower countries. Here, I argue that the conditions that are related to the "structural adjustment reform and anti-corruption" are expected to be more stringent than others because it is associated with higher political and social risks and higher sovereignty costs for borrower countries. Implementing these conditions may provoke more intense social opposition.

Structural adjustment reform was the main focus of World Bank policy lending (structural adjustment loan (SAL) and sectoral adjustment loans (SECALs)) before the institution shifted its focus on poverty reduction and social development as well as institutional and governance reform in 1990s (Bogetic and Smets 2017, 2; Clark and Dolan 2021, 9). Rooted in neoliberal ideology, these structural adjustment conditions mandate that developing countries adopt liberalized economic policies and institutions to address the debt crisis and economic growth slowdown. However, these conditions often entail painful social costs in the short run, such as the reduction of public welfare spending and the removal of government protection for domestic industries (Babb and Kentikelenis 2018). Consequently, the interests and welfare of the domestic population and industries may suffer (Abouharb and Reinsberg 2023). Moreover, accepting these conditions could potentially undermine the policy-making autonomy of developing countries (Babb and Kentikelenis 2018), eliciting opposition from domestic citizens. In comparison to loan conditions aimed at strengthening the protection of vulnerable groups (low-income individuals, women and children, people in rural areas), enhancing social welfare (increasing education and health expenditures), and promoting social fairness and justice, the political and social risks associated with structural adjustment reforms are evidently higher.

Though the share of conditions related to structural adjustment reform significantly declined over time (Cormier and Manger 2018), and the World Bank offered less structural adjustment lending than IMF (Dreher 2004, 451), a certain proportion of structural reform conditions persists in the World Bank's loan conditions based on my analysis.

Besides, I added "anti-corruption" as an additional topic given that the anti-corruption reform is a very sensitive issue for the country to conduct which may cause political instability. The World Bank has

been focusing on governance and anti-corruption since the 1990s. When Paul Wolfowitz took over as the president of the World Bank, he took a tough stance to implement this agenda but facing intense opposing from some countries. For instance, China strongly opposed the World Bank's anti-corruption agenda and threatened to stop borrowing from the World Bank (Moschella and Weaver 2014, 255). Compared to other governance reform conditions aimed at enhancing institutional quality and governance capacity, conditions directly related to anti-corruption reforms have a greater impact on a country and may pose higher political risks. Therefore, borrowing countries are supposed to exercise extra caution when accepting such loan conditions.

While borrowing countries prefer to obtain policy loans from the World Bank to supplement their budgets, they are also very cautious about international organizations intervening in their policies. Countries like India are particularly committed to maintaining policy independence. As a result, the World Bank is less likely to intervene in India's domestic affairs through structural reform conditions (Kirk 2012, 18). Other countries may also have many skepticisms towards the World Bank's structural reforms conditions and be more careful when deciding to accept these conditions.

However, some people may raise the "scapegoat" theory to argue that the borrower government is using the international organization as a scapegoat to implement the unpopular structural adjustment reforms domestically (Vreeland 2003, 2007). In subsequent regressions, I include a variable that measures the political resistance facing the borrower government to control this possibility. Theoretically, I think that even if a government choose to accept these conditions with such intention, they would be highly attentive to the potential social opposition and its impact on the government.

Operationalization:

I chose 6 most representative topics of structural adjustment reforms, including fiscal policy, employment and wage restrictions, trade and investment liberalization, debt reduction, and market liberalization reforms[6]. Besides, I add the anti-corruption reform to the list. The corresponding content

[6] Structure reforms also include exchange rate and interest rate liberalization, according to Williamson's Ten Points (Williamson 1990), the foundation of Washington Consensus. However, unlike IMF, World Bank rarely deal with

to each topic is shown below. In this process, I referred to previous literature on the categorization of structured reform conditions by the World Bank and the IMF (A. E. Kentikelenis, Stubbs, and King 2016; Kaya and Reay 2019; Cormier and Manger 2022; A. Kentikelenis and Stubbs 2023).

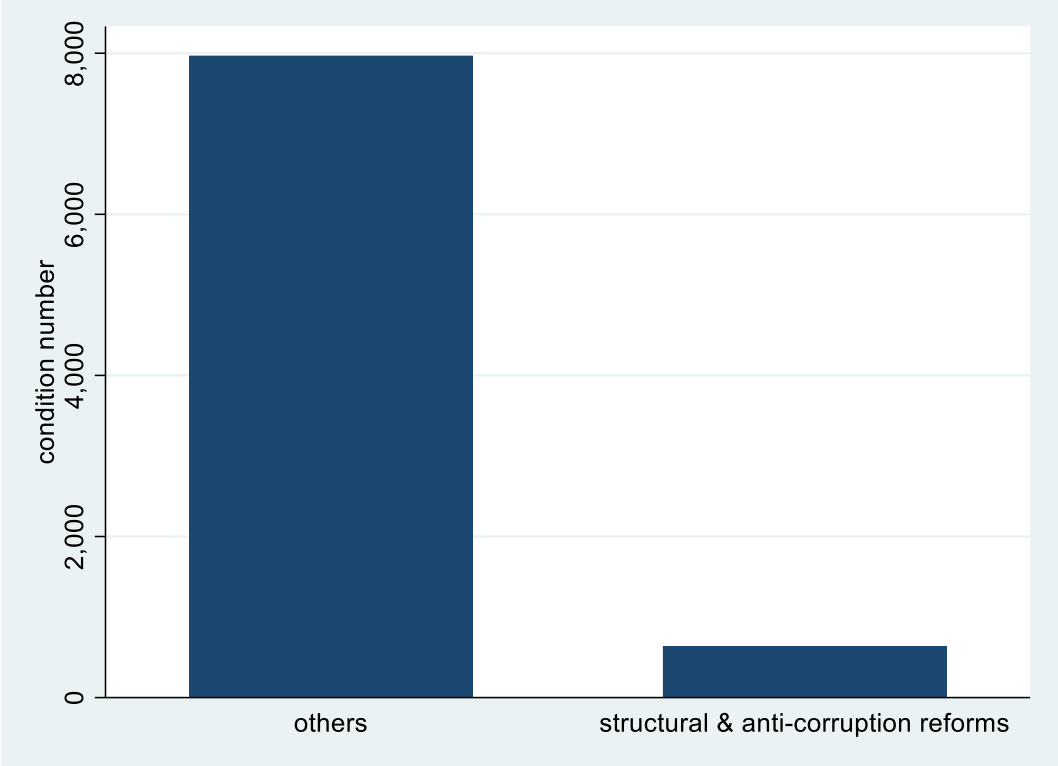
Table 2: Topics and content of structural reform and anti-corruption conditions

Topic	**Content**
Fiscal policy	deficit control, debt reduction, fiscal consolidation/discipline, prudent fiscal management/policy, public spending cut
Employment and wage restrictions	hiring freeze/prohibiting all recruitments, lay off, salary freeze, control salary spending, reduce pension
Trade and investment liberalization	reduce tariff, remove non-tariff barrier, import liberalization, reduce restrictions on foreign investment
Debt reduction	debt reduction, debt restructuring, clear arrears
Market liberalization	promote competition, deregulate/deregulation, industry liberalization, ease market entry, anti-monopoly/monopolization, remove price control, privatization, SOE/state owned enterprises restructuring, remove employment restrictions for foreigners
Anti-corruption	anti-corruption

After screening, I found a total of 639 conditions related to structural reforms and anti-corruption, less than one-tenth of the total. Burkina Faso, Indonesia, Poland, Ukraine, and Cape Verde are the top five recipients of such type of conditions.

Figure 5: Share of structural & anti-corruption conditions

exchange and interest rate reforms in developing countries, so I did not include these two topics into account in my list.



- **The degree of constraint on borrower's behaviors**

The fourth dimension of stringency considers the degree of constraint on the borrower government's behaviors through the condition. A higher level of constraint indicates that the borrower government's behaviors are more restricted when implementing the conditions. In contrast, a lower level of constraint grants the government more discretion in implementation. Here, I focus on the level of specificity of the condition.

a. The specificity of conditions

The specific level of the condition determines how much autonomy the government has in implementing the conditions. The specific level of the condition has a negative relationship with the level of government autonomy. For example, a condition with specific numerical target implies that the borrower must accomplish the tasks by generating concrete outcomes that can be objectively monitored and assessed by the public. In contrast, a generous and less specific condition means that the borrower has more autonomy to perform the tasks in its own way without the pressure to yield quantifiable and concrete outcomes. There are also other forms of specificity that imposes constraint on government's

behavior. For example, a condition specifying the target group diminishes the government's discretion in selecting the group to which the condition applies. This constrains the government's behavior because the government might selectively impose loan conditions on a specific group for certain political purposes (Abouharb and Reinsberg 2023).

In the literature of international law, the concept of "precision" refers to whether an international law or provision has clear and specific requirements for the behavior of actors (Abbott et al. 2000, 412). High precision reduces the uncertainty of the actor's behavior as well as the discretion of the actor. Meanwhile, high precision level also increases the difficulty of the actor to comply with the law or provision. As Abbott et al. (2000, 414) argue, the more ambiguous a legal provision is, the harder it becomes for people to assess whether actors have complied with that provision. Therefore, it is possible that some actors strategically choose to follow some laws that are relatively less precise to avoid excessive constraints. This logic can also be applied to the World Bank's loan conditions[7].

The specific level of World Bank condition could also be a bargaining outcome between the World Bank and the borrower. If the World Bank does not have great confidence towards the capacity and willingness of the borrower country to effectively implement the conditions according to its standards, it would tend to impose a more specific condition to tie borrower's hands and reduce the risk of fund misuse. Conversely, if the borrowing country has greater bargaining power against the World Bank, it will be less likely to accept those very specific conditions. Instead, it will push the World Bank to use more ambiguous words in conditions in order to increase the autonomy of the borrower country and lower the compliance difficulty. In such cases, the World Bank is less capable of imposing a very strict condition on the borrower and may have to make appropriate concessions. Another possible situation is that it is in World Bank's interest to use vague words in conditions to some countries so that it will face fewer external challenges in justifying the borrower's compliance with the condition (Dreher 2004, 451).

Operationalization:

[7] The meaning of "precision" of legal provision is similar to the "specificity" of loan conditions in my study. Both refer to whether the text is clear and accurate enough to guide and regulate government's behaviors.

a. Specific condition

One condition will be counted as a *specific condition* if it meets any of the following criteria.

a.1 The condition contains numerical target on economic and social development indicators.

If one condition specifies the numerical targets of economic and social development indicators that need to be fulfilled by the borrowing government, it will be counted as a specific condition. These numerical targets encompass economic and social development objectives such as the inflation rate, public debt level, deficit control, etc. Additionally, they may involve tariff and tax adjustments, such as reducing tariff and tax rates, as well as government fiscal planning, including increasing government spending on health/education and decreasing subsidies.

For example, in Philippines, the condition indicates that the deficit as a percentage of GDP reduced from 3.8% in 2004 to 2.7% in 2005, and deficit through September 2006 reduced to 50.4 billion Peso (Project 100706). In Peru, the condition specifies the specific tariff reduction by the government (tariffs on capital goods in 196 lines has reduced from 7 to 4 percent (Project 101335). In Pakistan, the condition makes a specific requirement on the increase level of government education budget (15% increase for 2006-07 approved education budget (Project 101243)).

a.2 The condition attaches specific requirement on government work and performance.

If one condition has specific requirement on government work and performance, it will also be counted as a specific condition. For example, in Sierra Leone, the World Bank condition required the government to have at least 30 percent procurements conducted through open competition (Project P107335). In Ethiopia, the World Bank condition requires the Ministry of Trade to reduce half of the licensing categories and eliminate the requirement for annual competence certificates for at least seventy percent of trade- licensing categories (Project 168566).

a.3 The condition includes constraining time requirement

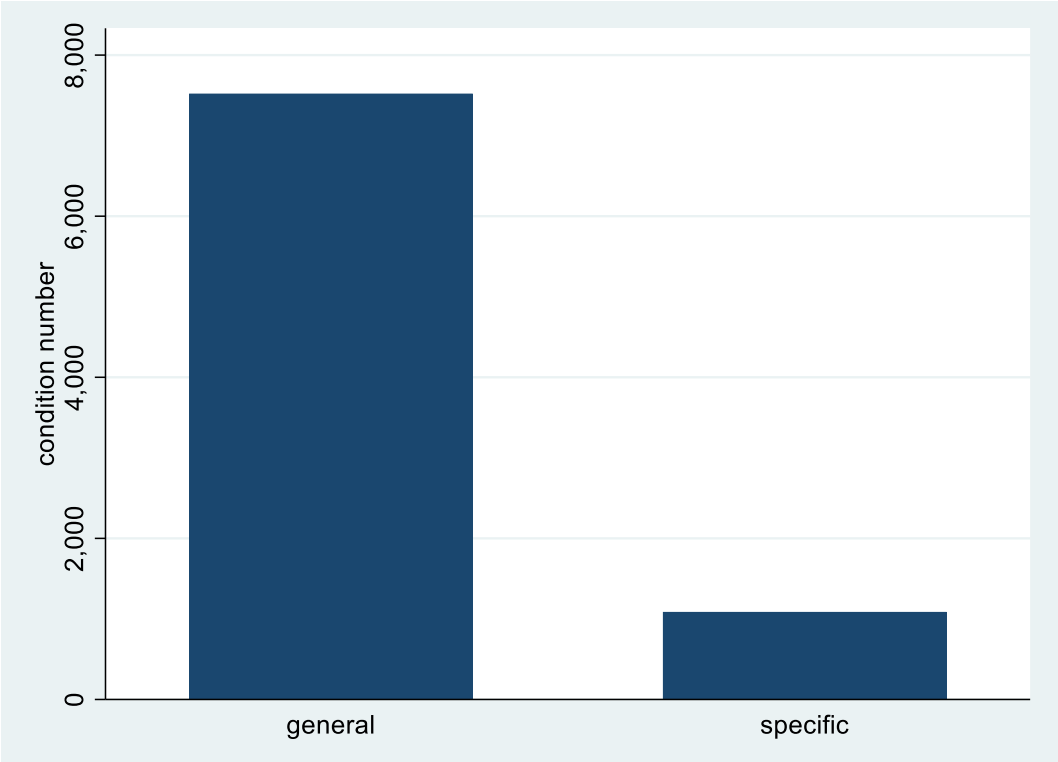
If one condition has "constraining time requirement", it will be counted as specific condition. Constraining time requirement here means there is clear indication that the borrower government needs

to conduct the work during a specific period or finish the work by a specific deadline. This type of condition imposes additional pressure on the borrowing country to accomplish the task within the given timeframe. For example, in Belarus, the World Bank requires the government to extend the duration of the targeted social assistance from 3 months to 6 months (Project 115700).

It should be noted that the "constraining time requirement" is different from "general time content" included in many conditions. The latter merely includes time-related information but lacks the power to constrain the government's behavior. For instance, in Central African Republic, the condition says that the Ministry of Finance has issued a report on the use of cash advances, covering the period from January to September 2006 (P102576). Although this condition provides time-related information, it is merely a description and does not impose a time constraint on the government. Therefore, such conditions are not regarded as specific conditions.

Through the coding, I find there are 1087 specific conditions, accounting for 12.63% of total conditions. Pakistan, Brazil, Morocco, Indonesia, and Mozambique are the top five recipients of specific conditions.

Figure 6: Share of specific conditions



A summary of the four dimensions in measuring the condition stringency is listed in the table below.

Table 3: Summary of four dimensions of condition stringency

Dimension	**Definition**	**Impact on condition stringency**	**Measurement**
Difficulty of implementation	How difficult it is for the borrower government to implement the condition	The more difficult for the borrower to implement, the more stringent the condition is.	Law-related condition (Y/N)
Scope of impact	What is the scope of impact of the condition	The broader the scope of impact, the more stringent the condition is.	National/local-level condition (Y/N) Pilot reform condition (Y/N)
The potential political and social risks	How much political and social risk is associated with the condition	The higher the risk, the more stringent the condition is.	Structural reform or anti-corruption condition (Y/N)
The degree of constraint on borrower government's behavior	To what extent does the condition constrain government behavior	The higher the level of constraint, the more stringent the condition is.	Specific condition (Y/N)

5.2 The formula to calculate the stringency of condition

To calculate the stringency of a condition, I assign scores to each condition based on the four dimensions mentioned above and then sum up these scores to obtain the overall stringency score for each condition. In each dimension, the highest score is 25, and the lowest score is 15. Consequently, the most stringent condition will have a stringency score of 100, while the least stringent condition will score 60.

Firstly, regarding the difficulty of implementation, if a condition is about law, it receives a implementation difficulty score of 25 (high level of difficulty). If a condition is not about law, the score is 15 (low level of difficulty).

Secondly, concerning the scope of impact, if a condition is a local-level condition or pilot program condition, it receives a score of 15 (narrow impact). If a condition does not fall into either of these categories, that is, the national and non-pilot condition, the score is 25 (broad impact).

Thirdly, considering potential political and social risk, if a condition falls under structural reform or anti-corruption reform condition, it is assigned a score of 25 (high risk). If a condition does not fall into this category, the score is 15 (low risk).

Fourthly, evaluating the degree of constraint on the borrower government's behavior, if a condition is a specific condition, it receives a score of 25 (more constraint). If a condition is a general condition, it receives a score of 15 (less constraint).

Table 4: Rubric of condition stringency

Dimensions	**Categories**	**Stringency score**
1. Difficulty of implementation	Condition related to laws	25
	Other condition	15
2. Scope of impact	National & non-pilot condition	25
	Local or pilot condition	15
3. Political and social risk	Structural reform or anti-corruption reform condition	25
	Other condition	15
4. Constraint on government behavior	Specific condition	25
	General condition	15

Stringency score = Implementation difficulty + Scope of impact + Political and social risk + Constraint on government behavior

6 Regression analysis

In regression analysis, I test whether premier borrowers receive less stringent conditions from the World Bank. I use two sets of dependent variables to measure the stringency of conditions.

Dependent variable

a. Stringency score of conditions

The first dependent variable is the *stringency score for each condition*, which is calculated based on the formula mentioned above. The unit of analysis is each condition. This variable takes into account of the four dimensions of stringency. For example, a condition may contain multiple stringent elements (e.g. a national-level structural reform related condition with specific numerical target), which is more stringent than a condition that contains no or only one stringent element. One example of such highly stringent condition can be found from a condition to Poland (Project 116125), which says that "The Borrower has enacted the Law on Bridging Pensions reducing the number of persons eligible for early retirement from 1.7 million to 0.3 million, while safeguarding the base level of pensions for persons affected by the change". This condition encompasses all four stringent elements: national-level, law-related, structural reform with numerical target, therefore, it is more stringent than most of other conditions.

b. Number of stringent conditions

The second set of dependent variables are the *number of stringent conditions* across four dimensions to a country at a year from the World Bank. The unit of analysis is, therefore, the country-year. The stringent conditions include the conditions related to laws (dimension 1: implementation difficulty), national-level and nonpilot conditions (dimension 2: scope of impact), conditions related to structural adjustment and anti-corruption reforms (dimension 3: political and social risk) and specific conditions (dimension 4: constraint on government behaviors). Unlike most of the previous studies focusing on the total number of conditions, I only use the number of conditions that I believe to be quite stringent.

Independent variable

My independent variable is the dummy variable of *premier borrower*, which is set to be 1 if one borrower

country is a premier borrower in one particular year. It is important to note that one country may not always be "premier borrower" if its political or economic conditions get deteriorated.

I use the average credit ratings from three major credit rating agencies (Moody, Standard & Pool, Fitch) to measure the country risk level in a given year. To quantify the country risk based on credit rating, I assign different credit scores according to the rating systems of the three major rating agencies and take the average of the credit scores of a country in one year based on all the credit ratings issued by three rating agencies (Table 5 below shows the assigned credit scores corresponding to the credit rating systems of three major rating agencies). I define a low-risk country as one that reaches the investment grade (i.e. average annual credit score of at least 3.5).

Table 5: Credit score assigned for credit rating from three rating agencies

Grade	Description	S&P	Moody's	Fitch	rating
Investment Grade	Prime	AAA	Aaa	AAA	**5.0**
	High Medium Grade	AA+	Aa1	AA+	4.83
		AA	Aa2	AA	4.67
		AA-	Aa3	AA-	**4.5**
	Upper Medium Grade	A+	A1	A+	4.33
		A	A2	A	4.17
		A-	A3	A-	**4.0**
	Lower Medium Grade	BBB+	Baa1	BBB+	3.83
		BBB	Baa2	BBB	3.67
		BBB-	Baa3	BBB-	**3.5**
Speculative Grade	Speculative	BB+	Ba1	BB+	3.33
		BB	Ba2	BB	3.17
		BB-	Ba3	BB-	3.00
	Highly Speculative	B+	B1	B+	2.83
		B	B2	B	2.67
		B-	B3	B-	**2.5**
	Substantial Risk	CCC+	Caa1	CCC+	2.40
		CCC	Caa2	CCC	2.30
		CCC-	Caa3	CCC-	2.20
	Extremely Speculative	CC	Ca	CC	2.10
		C	C	C	**2.0**
	In Default	RD	/	RD	1.00
		SD	/	SD	0.50
		D•NR	D•NR	D•NR	-
		D		D	-
				DDD	-

Source: credit rating systems of three rating agencies come from "world government bonds" website. http://www.worldgovernmentbonds.com/world-credit-ratings/. The credit scores are set by the author

based on the rating systems.

Premier borrower measurement

Premier borrower dummy is an interactive term of large country dummy and low country risk dummy.

*Premier borrower dummy = large country dummy * low risk country dummy*

I treat countries with a population exceeding 50 million as large countries, while those with credit ratings reaching the investment grade (i.e., an average annual credit score of at least 3.5) as low-risk countries. The borrower country that meets both the criteria of large country and low-risk country at a specific year is regarded as premier borrower.

Large country	Low-risk country
Population>50 million	sovereign credit rating: Investment grade

One problem associated with the sovereign credit rating is the loss of observations due to the missing data of some countries' credit ratings. This can lead to the decline of sample size in the regression and may affect validity of results. Fortunately, I don't necessarily need the precise rating for each country to identify premier borrowers. What matters is whether a country's rating reaches investment grade in a given year.

There are good reasons to assume that countries which do not have a credit rating are not investment-grade countries. Theoretically, if credit rating agencies do not publish credit ratings to a country, it implies that the country does not issue sovereign bonds in the market. This could be due to the country's high risk which makes its bonds less attractive to market investors, or the financing cost is too high for the country to bear.

To validate this assumption, I examined the income level of countries which do not have a sovereign credit rating in a certain year. Among the 345 country-year without sovereign credit rating data, 50 country-year involve countries with upper-middle or high incomes. They could be premier borrower

assuming the income level are positively related to the sovereign rating. However, after further checking the population of countries in this 50 country-year, only one country has population over 50 million (Mexico 2011). Thus, I can reasonably conclude that these country-years with missing data are not premier borrowers.

In the regression analysis below, I employ two ways. First, I keep only those country-year with available credit rating data in the sample. Second, I treat all country-year without credit rating data as non-premier borrowers and keep the entire sample without losing any observations.

Control variables

a. Geopolitical interest variables

Many studies point out the influence of major shareholders especially the U.S. on World Bank and IMF to achieve the state private interests (Andersen, Hansen, and Markussen 2006; Clark and Dolan 2021; Fleck and Kilby 2006; E. K. Kersting and Kilby 2016; Kilby 2009, 2013a, 2013b). Specifically regarding loan conditions, some studies indicate that countries with favorable relations with the U.S. receive fewer conditions from the World Bank or IMF (Dreher and Jensen 2007; Stone 2008; Clark and Dolan 2021). On the contrary, another argument suggests that the influence of the U.S. on the design of loan conditions at the World Bank is limited (Cormier and Manger 2022; McLean and Schneider 2014). The World Bank has significant autonomy in formulating loan conditions and must consider the interests of all parties involved.

I use the *UNGA voting ideal point distance* between a country and the U.S. (Bailey, Strezhnev, and Voeten 2017) to measure the U.S. strategic interests in the World Bank. In robustness test, I use the *UNGA important vote alignment rate* between a country and the U.S.[8]. Additionally, I use the *log of U.S. bilateral aid* to a country as another strategic interest's variable. If the U.S. interests is significant in the design of World Bank conditions, the borrower countries that have a closer voting alignment with the U.S. (either

[8] Several previous studies used "UNGA important vote alignment" between a country and the U.S. to measure the U.S. strategic interests based on the idea that U.S. places greater emphasis on those important votes than other general votes (Clark and Dolan 2021; E. K. Kersting and Kilby 2016; Kilby 2009).

in all votes or important votes) and receive more U.S. bilateral aid should also get less stringent conditions from the World Bank.

Besides, some studies found that UNSC temporary membership received more favorable treatment from the World Bank/IMF, including more loans (Dreher, Sturm, and Vreeland 2009b, 2009a; Dreher, Lang, et al. 2022), less stringent loan conditions (Dreher, Sturm, and Vreeland 2009b), and more supplementary lending (E. Kersting and Kilby 2019). Therefore, I include a dummy variable of *UNSC temporary membership* in the model to control this effect.

b. Borrower economic variables

I also include several borrower-side economic variables. A country's economic condition and economic development level may affect the country's demand towards the World Bank loans, as well as the World Bank's assessment of the necessary reforms in the country. For the countries that show the robust economic conditions, the World Bank may feel less necessary to conduct very stringent reforms in the country, and vice versa. For example, Abouharb and Cingranelli (2005) find that countries with lagged economic development are more likely to get structural adjustment loans (SAL) from the World Bank.

I refer to relevant previous studies (Nelson 2014; McLean and Schneider 2014; Hernandez 2017; Clark and Dolan 2021) and include *GDP per capita, GDP growth rate, inflation, government spending as a percentage of GDP, log of international reserves, external debt as a percentage of GNI* as well as *trade openness* (sum of imports and exports as a percentage of GDP) as control variables.

c. Borrower political variables

Besides, the borrower's domestic political factors could also affect the conditions it receives from the World Bank. First, the democratic level of a country may impact the World Bank's trust towards the country, as evidenced by previous research that democratic countries are more likely to comply with IMF conditions (Dreher 2006, 778) and conditions from IMF and World Bank are more likely to make effect in democratic countries (Montinola 2010). Meanwhile, democratic countries are more likely to face greater domestical political resistance, increasing their incentives to use the World Bank/IMF conditions to implement the controversial reforms that are difficult to carry out in domestic (Vreeland

2003, 2007). Thus, I include one variable that measures the democratic level of the country, *freedom house index* (average score of "Political Rights" and "Civic Liberties"), and one variable that measures the domestic political resistance facing the incumbent government, *percentage of opposition seat*[9] from The Database of Political Institutions 2020 (Cruz, Keefer, and Scartascini 2021). What's more, the election could also affect the borrower government's attitude towards the loan conditions from international organizations. Rickard and Caraway (2014) find that borrowers receive less stringent IMF conditions six months before the election. Kersting and Kilby (2016) find that loan disbursement from the World Bank is faster for U.S. friend countries which is about to hold election. To control the election effect, I use the *number of years to next election* as a covariate. Database of Political Institutions (2020) has one variable called the government "Years Left in Current Term", which is the same as the "number of years to next election" I want to use. Lastly, the party ideology could also influence the number and stringency of conditions one country receive from the World Bank/IMF. If the country indeed utilize the international organizations as a "scapegoat" to push forward the unpopular policies and reforms domestically as (Vreeland 2003) suggests, then right-lean government should be more likely to accept World Bank/IMF conditions since a portion of those conditions are structural adjustment conditions (liberal economic policies) which has a closer alignment with right-lean government's policy orientation. However, one study challenges the "scapegoat" theory by showing the empirical evidence that right-lean government does not receive more public sector reform conditions from the IMF (Rickard and Caraway 2019). To examine and control the possible effect of party-ideology on World Bank conditions, I use the variable *Chief Executive Party Orientation* as a control variable, which is also from the Database of Political Institutions (2020).

d. Impact of new donors

The rise of emerging donors, especially China, is likely to affect the behaviors of World Bank such as the loan conditions to borrower countries (Hernandez 2017) and sectors of loans to borrower countries (Hernandez 2017; Zeitz 2021). I therefore include the *amount of Chinese development finance* to a country in a year as a control variable. In robustness test, instead of using the development finance, I use the *China's aid (ODA-like)* to a country in a year as another control variable. The data comes from Aiddata

[9] Calculated by dividing the "number of opposition Seats" to sum of "number of opposition seats" and "number of government seats"

Chinese Development Finance Dataset (version 3.0) (Dreher, Fuchs, et al. 2022).

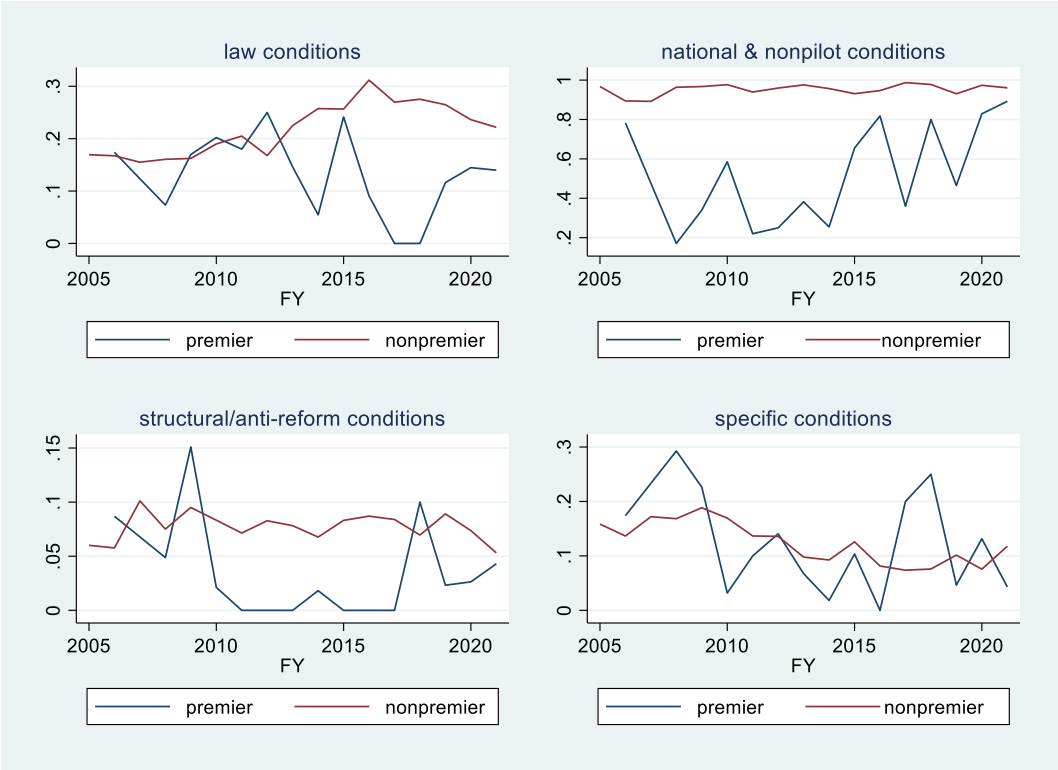
e. IMF conditions

Finally, I control the *number of IMF conditions* and *number of IMF binding conditions* (in robustness test). As another key international financial institution imposing various loan conditions to borrower countries, it is possible that the stringency of World Bank conditions is affected by IMF conditions. Previous literature finds that IMF and World Bank collaborate with each other to formulate loan conditions (Ahluwalia 1999; Feinberg 1988). Therefore, there may be a certain degree of similarity between the loan conditions of the World Bank and those of the IMF. It could also be possible that when one country has already received the harsh conditions from one institution in one area, the other institution will attach less stringent conditions in that area or focus on other areas. Previous research exploring the determinants of World Bank conditions also consider the influence of IM program and add it as a control variable (Cormier and Manger 2022; McLean and Schneider 2014). Thus, the inclusion of the number of IMF conditions and number of IMF binding conditions (more stringent type of conditions) can help control for that.

Preliminary evidence

Before running the regression, I first show the evidence of condition stringency between premier and non-premier borrowers. In figure 7, each graph represents the share of stringent conditions in one dimension (number of stringent conditions/total conditions). The blue line represents the share of stringent conditions for premier borrower group, while the red line represents the share of stringent conditions for non-premier borrower group. As one can see, in general, the share of laws-related conditions, the share of national and nonpilot conditions, and the share of structural and anti-corruption reform conditions for premier borrowers are lower than those of non-premier borrowers. Only in the case of the share of specific conditions, there is no significant difference between two groups. Therefore, there is reason to believe that condition stringency is lower for premier borrowers than for non-premier borrowers.

Figure 7: share of stringent conditions



Model specifications

a. Stringency score of conditions

In the first regression, the stringency score for each condition is my dependent variable, I use the OLS model with two-way fixed effects. The unit of analysis is each condition.

$$condition\ stringency_{a,i,t} = \beta_0 + \beta_1 * Premier_{i,t-1} + \beta_2 * CV_{i,t-1} + \partial_i + T_t + \varepsilon_{i,t}$$

$condition\ stringency_{a,i,t}$: $stringency\ score\ of\ condition\ a\ to\ country\ i\ at\ year\ t$

$Premier_{i,t}$: $dummy\ variable, whether\ country\ i\ is\ a\ premier\ borrower\ at\ year\ t-1$

$CV_{i,t-1}$: $control\ variables\ of\ country\ i\ at\ year\ t-1$

∂_i: $country\ fixed\ effect$

T_t: $year\ fixed\ effect$

$\varepsilon_{i,t}$: $error\ term$

Regression results

Table 6 shows the regression results using the sample with available credit rating data and table 7 shows

the results using full sample, respectively.

In each table, the first column represents a simple regression of the "stringency score" on the "premier borrower dummy" controlling the large population and investment grade dummy (model 1). From column 2 to 5, I add different sets of control variables separately to the model (geopolitical variables, borrower's economic variables, borrower's political variables, and China's development finance and IMF conditions variable). In the last column, I include all control variables except "right government"[10] into one model (model 6 full specification).

The regression results generally fit my expectation. In table 6, the coefficients of the main independent variable of interest, "premier borrower", are negative and significant in five out of six model specifications, suggesting that being a premier borrower helps reduce the stringency of conditions it receives. Table 7's results using full sample further validate this conclusion. The coefficients of premier borrower are negative and significant in all six model specifications. When checking the large country and investment-grade dummy, there is no compelling evidence that large country or country with investment grade itself receive less stringent conditions. Thus, only when a country simultaneously possesses both characteristics will the country receives less stringent conditions.

Other control variables

I also check the significance of other control variables. Most of the control variables show no significance, except for a few. Firstly, concerning geopolitical variables, the "UNGA voting distance to U.S." is significant in both models 2 and 6. However, the coefficient's sign is surprisingly counterintuitive. The negative sign suggests that the borrowing country, which has a voting pattern more similar to the U.S. in the UNGA (lower voting distance), is likely to face more stringent conditions from the World Bank. This challenges the traditional belief that the U.S. utilizes the World Bank for its private interests.

Secondly, in terms of the borrower's economic factors, only the GDP growth rate is significant in full

[10] The dummy variable of "right government" has a great share of missing values. So, I exclude this variable from the full specification.

specifications. Countries with higher GDP growth rate are likely to receive more stringent conditions. Besides, log of total reserves has a negative and significant relationship with the condition stringency in model 3 using full sample, indicating that countries with lower levels of reserves are likely to have more stringent conditions. However, when it comes to the full specification, the coefficient of this variable becomes insignificant.

Thirdly, for the borrower's political factors, in the full specification, only the "years to the next election" is highly significant ($p<0.01$) with a positive coefficient, indicating that as the election approaches, a country obtains less stringent conditions.

Lastly, China's development finance and the number of IMF conditions to a country do not significantly impact the stringency level of World Bank conditions.

In summary, through the analysis of both the number of stringent conditions and the stringency score for each condition, I find that premier borrowers receive less stringent conditions compared to other countries. However, since this is just a correlation analysis, thus no causal conclusions can be easily drawn. It is hard to know whether the less stringent conditions to premier borrowers is a result of premier borrowers exerting pressure on the World Bank, or it is the World Bank that deliberately attaches less stringent conditions to maintain its relationship with the premier borrowers.

Table 6: stringency score (sample with available credit rating data)

	stringency					
	(1)	(2)	(3)	(4)	(5)	(6)
premier borrower	-2.074	-1.496*	-2.119*	-4.461***	-2.561**	-3.319**
	(1.37)	(.869)	(1.127)	(.957)	(1.203)	(1.486)
large country	-.605	-1.39*	-.991	-5.042***	.123	-.968
	(1.108)	(.767)	(1.013)	(1.546)	(1.458)	(1.824)
investment grade	-1*	-.922*	-.188	.514	.183	1.883
	(.563)	(.493)	(.615)	(.576)	(.586)	(1.271)
unga voting dist (US)		-3.662**				-2.923*
		(1.53)				(1.467)
US aid (log)		.114				.019
		(.315)				(.833)
unsc		.463				.239
		(.52)				(.766)
gdp per capita (log)			-.67			-1.96
			(1.338)			(2.188)
gdp growth			.103			.168**
			(.079)			(.083)
inflation			.017			.019

			(.034)			(.042)
gov spending (% GDP)			.058			.176
			(.137)			(.111)
total reserves (log)			-4.43			-3.766
			(2.778)			(3.263)
external debt (% of GNI)			-.003			.004
			(.006)			(.006)
trade openness			-.013			-.036
			(.023)			(.024)
freedom house				1.726*		-2.067
				(.902)		(1.319)
years to next election				.185**		.308***
				(.083)		(.111)
right government				-.112		
				(.799)		
opposition seats (%)				.38		-.647
				(1.68)		(1.166)
CN dev finance (log)					-.118	-.146
					(.111)	(.142)
N of IMF conditions					.005	-.003
					(.009)	(.007)
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5096	4519	4224	2431	3840	2980
R-squared	.233	.231	.244	.332	.249	.274

Note: Standard errors are in parentheses. Standard errors are clustered at country level.
*All independent variables are lagged one year. *** p<.01, ** p<.05, * p<.1*

Table 7: stringency score (full sample)

	stringency					
	(1)	(2)	(3)	(4)	(5)	(6)
premier borrower	-2.488*	-2.162**	-2.551**	-4.333***	-3.156**	-3.319**
	(1.369)	(1.078)	(1.121)	(1.049)	(1.209)	(1.486)
large country	-.199	-.344	-.761	-.923	.29	-.968
	(.905)	(.678)	(.713)	(1.521)	(.988)	(1.824)
investment grade	-.442	-.388	.104	.351	.742	1.883
	(.506)	(.577)	(.602)	(.41)	(.585)	(1.271)
unga voting dist (US)		-1.939**				-2.923*
		(.942)				(1.467)
US aid (log)		.062				.019
		(.185)				(.833)
unsc		.271				.239
		(.453)				(.766)
gdp per capita (log)			-1.314			-1.96
			(.795)			(2.188)
gdp growth			.026			.168**
			(.048)			(.083)
inflation			-.001			.019
			(.027)			(.042)
gov spending (% GDP)			.108			.176
			(.092)			(.111)
total reserves (log)			-3.555**			-3.766
			(1.686)			(3.263)
external debt (% of GNI)			-.007			.004
			(.004)			(.006)
trade openness			-.026*			-.036
			(.015)			(.024)
freedom house				.047		-2.067
				(.351)		(1.319)
years to next election				.166		.308***
				(.112)		(.111)
right government				-.145		
				(.635)		
opposition seats (%)				-.057		-.647
				(1.491)		(1.166)
CN dev finance (log)				-.101		-.146
				(.066)		(.142)
N of IMF conditions				.009*		-.003
				(.005)		(.007)
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	8609	7797	6423	3667	6410	4395
R-squared	.17	.167	.195	.267	.189	.232

Note: Standard errors are in parentheses. Standard errors are clustered at country level.
*All independent variables are lagged one year. *** p<.01, ** p<.05, * p<.1*

Model specifications

b. DV (number of stringent conditions)

Next, I further examine why the stringency of conditions to premier borrowers is lower. My dependent variables are the number of stringent conditions across four dimensions. I use the negative binomial model since the dependent variable is a count variable. To control the country-specific time invariant factors, I add country fixed effect. To control the time events that affect all countries such as the

financial crisis, I add year fixed effect. It's highly likely that the focus of World Bank loan conditions varies along with the general global political and economic conditions. During crisis years, the IMF/World Bank are likely to attach more conditions or more stringent condition to ease the lending risk.

Besides the control variables mentioned above, I also include the total number of conditions one country receives in one year as another control variable.

$$N\_stringent\ conditions_{i,t} = \beta_0 + \beta_1 * Premier_{i,t-1} + \beta_2 * CV_{i,t-1} + \partial_i + T_t + \varepsilon_{i,t}$$

$N\_stringent\ conditions_{i,t}$:

- $number\ of\ "conditions\ related\ to\ laws"\ to\ country\ i\ at\ year\ t$
- $number\ of\ "national\ and\ nonpilot\ conditions"\ country\ i\ at\ year\ t$
- $number\ of\ "structural/anti-corruption\ reform\ conditions"\ to\ country\ i\ at\ year\ t$
- $number\ of\ "specific\ conditions"\ to\ country\ i\ at\ year\ t$

$Premier_{i,t}$: $dummy\ variable, whether\ country\ i\ is\ a\ premier\ borrower\ at\ year\ t-1$

$CV_{i,t-1}$: $control\ variables\ of\ country\ i\ at\ year\ t-1$

∂_i: $country\ fixed\ effect$

T_t: $year\ fixed\ effect$

$\varepsilon_{i,t}$: $error\ term$

Regression results

Table 8 and 9 shows the regression results using the sample with available credit rating data and full sample, respectively.

In each table, from column 1 to 4, I simply regress "the number of relatively stringent conditions under four dimensions" on "premier borrower dummy". The models only include control variables of large population dummy, investment grade dummy, and the total number of conditions received by the country in a given year. From column 5 to 8, I add more control variables to the original models. To

avoid losing too many observations due to the missing data of control variables, I only add the most relevant control variables in the models, namely, UNGA voting distance with US, log of GDP per capita, log of total reserves, trade openness, freedom house index, and number of IMF conditions.

The results in table 8 show that the coefficients of "premier borrower" are all negative but only statistically significant in two dimensions: number of conditions related to laws and number of conditions related to structural adjustment and anti-corruption reforms. The negative coefficients indicates that premier borrowers are likely to receive fewer conditions related to laws and fewer conditions related to structural adjustment and anti-corruption reforms, controlling the total number of conditions one country receives. The coefficients of "premier borrower" are more significant in the models of the conditions related to structural adjustment and anti-corruption reforms ($p<0.01$) than models of the number of conditions related to laws ($p<0.1$).

The results in table 9 using the full sample, again, show that premier borrowers receive fewer conditions related to structural adjustment and anti-corruption reforms (significant at 0.01 level). However, the effect of premier borrower on the number of conditions related to laws becomes insignificant. Combining the finding of first regression (stringency score as dependent variable), it can be concluded that the lower stringency level of conditions to premier borrowers is mainly due to the fewer conditions of structural adjustment and anti-corruption reforms they receive.

Table 8: number of stringent conditions (sample with available credit rating data)

	(1) laws_n	(2) national_n	(3) structural_n	(4) specific_n	(5) laws_n	(6) national_n	(7) structural_n	(8) specific_n
premier borrower	-.654*	-.373	-1.033***	-.174	-.452*	-.367	-1.141***	-.284
	(.339)	(.245)	(.372)	(.271)	(.232)	(.237)	(.395)	(.285)
large country	-.127	-.099	-.123	-.032	-.22	-.039	.006	.209
	(.243)	(.083)	(.181)	(.171)	(.164)	(.096)	(.25)	(.203)
investment grade	.264	.005	.173	-.043	-.251*	.079	.138	.104
	(.186)	(.047)	(.205)	(.187)	(.134)	(.101)	(.253)	(.183)
number of conditions	.045***	.046***	.044***	.05***	.048***	.046***	.048***	.049***
	(.008)	(.006)	(.009)	(.006)	(.006)	(.006)	(.01)	(.007)
unga voting dist (US)					-.3***	-.007	-.308**	.005
					(.08)	(.053)	(.13)	(.117)
gdp per capita (log)					.341***	-.015	.113	-.004
					(.07)	(.061)	(.119)	(.106)
total reserves (log)					.236**	-.059	.119	-.211
					(.105)	(.051)	(.16)	(.13)
trade openness					0	.001	.001	-.003
					(.002)	(.001)	(.003)	(.002)
freedom house					.015	.013	.057	-.068
					(.046)	(.03)	(.068)	(.062)
N of IMF conditions					.001	0	.001	.002
					(.002)	(.001)	(.003)	(.002)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	409	409	409	409	351	351	351	351
Pseudo R^2	.052	.105	.056	.098	.114	.098	.071	.108

*Note: Standard errors are in parentheses. Standard errors are clustered at country level. All independent variables are lagged one year. Due to concave problem, only year-fixed effect is included. *** p<.01, ** p<.05, * p<.1.*

Table 9: number of stringent conditions (full sample)

	(1) laws_n	(2) national_n	(3) structural_n	(4) specific_n	(5) laws_n	(6) national_n	(7) structural_n	(8) specific_n
premier borrower	-.259	-.093	-1.919***	-.171	-.178	-.083	-1.589***	-.092
	(.246)	(.277)	(.424)	(.392)	(.255)	(.254)	(.434)	(.38)
large country	-.295**	-.009	1.097	-.645	-.326*	-.06	1.067	-.579
	(.132)	(.21)	(.769)	(.581)	(.19)	(.179)	(.752)	(.553)
investment grade	-.196	-.033	.727***	-.145	-.233	-.028	.785***	-.145
	(.123)	(.042)	(.281)	(.221)	(.143)	(.058)	(.288)	(.218)
number of conditions	.047***	.05***	.044***	.049***	.049***	.048***	.045***	.048***
	(.005)	(.005)	(.006)	(.007)	(.006)	(.005)	(.007)	(.008)
unga voting dist (US)					-.063	-.177	-.297	-.123
					(.229)	(.131)	(.391)	(.307)
gdp per capita (log)					-.473	-.042	-.422	.103
					(.342)	(.085)	(.351)	(.372)
total reserves (log)					-.026	-.242	-1.252***	-.644
					(.337)	(.195)	(.417)	(.447)
trade openness					-.005	.001	-.002	-.006
					(.004)	(.001)	(.006)	(.006)
freedom house					-.078	-.042	-.179	.046
					(.148)	(.069)	(.138)	(.143)
N of IMF conditions					-.001	.001	-.004	.005**
					(.001)	(0)	(.002)	(.002)
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	754	754	754	754	559	559	559	559
Pseudo R^2	.167	.218	.2	.171	.176	.213	.226	.182

*Note: Standard errors are in parentheses. Standard errors are clustered at country level. All independent variables are lagged one year. *** p<.01, ** p<.05, * p<.1*

Conclusion

How does the financial consideration of World Bank affect its relationship with borrower countries? Where does the bargaining power of borrower countries come from, and what can borrower countries gain from this bargaining power? This paper explains the World Bank's relationship with the borrower countries and relates that to the World Bank's consideration at financial level.

Conventional wisdom believes that the voting share one country own grants the country the formal influence in the World Bank, however, I argue that is not the whole source of bargaining power for the borrower countries. Borrower countries make financial contributions to the World Bank through different ways beyond simply the capital contribution. Their loan repayment helps the World Bank to generate income, broaden the equity base. The good creditworthiness of borrower countries helps the World Bank to release the lending capacity while maintaining triple A credit rating. This financial importance could translate into the bargaining power of borrower countries against the World Bank. Since premier borrowers (large and creditworthy borrowers) make greater financial contributions to the World Bank, they are likely to have higher bargaining power compared to other general borrowers.

How will the premier borrower gain from the high bargaining power? I argue that the World Bank will offer them with less stringent conditions. Through analyzing the World Bank policy loan conditions from 2005 to 2021 and coding all the conditions on four dimensions of stringency, I find premier borrowers are indeed more likely to receive less stringent conditions than other borrowers. Though it is hard to know whether this is the outcome of premier borrower's pressure on the World Bank to lower the condition stringency, or it is the World Bank's active move to please the premier borrowers, the relatively less stringent conditions imposed on premier borrowers is indeed a fact.

The conclusion of the paper has several implications. First, it sheds light on the importance of financial considerations of the World Bank on its relationship with borrower countries. With the change of World Bank funding structure, the financial importance of borrower countries to the World Bank is also likely to change. If the World Bank relies more on debt financing relative to donor's capital

contribution, the borrower countries that can provide substantial and stable loan income to the World Bank become even more important as the World Bank faces more pressure to repay its debt. Second, the conclusion further implies that the World Bank treat different borrower countries differently. Though the World Bank is dominated by the non-borrower shareholders and often implement less borrower-friendly policies, still, different borrowers receive different treatment from the institution. The power relation between the World Bank and the borrower countries could further affect the World Bank' policy making and the effect of reform implementation in different borrower countries.

References

Abbott, Kenneth W, Andrew Moravcsik, Anne-Marie Slaughter, and Duncan Snidal. 2000. "The Concept of Legalization." *International Organization* 54(3): 401–19.

Abouharb, M Rodwan, and David L Cingranelli. 2005. "When the World Bank Says Yes: Determinants of Structural Adjustment Lending." In *Globalization and the Nation State: The Impact of the IMF and the World Bank*, London ; New York: Routledge, 204–30.

Abouharb, M. Rodwan, and Bernhard Reinsberg. 2023. *IMF Lending: Partisanship, Punishment, and Protest*. 1st ed. Cambridge University Press. https://www.cambridge.org/core/product/identifier/9781009451116/type/element (November 24, 2023).

Ahluwalia, Montek S. 1999. "The IMF and the World Bank in the New Financial Architecture." *International Monetary and Financial Issues or the 1990s* 6.

Andersen, Thomas Barnebeck, Henrik Hansen, and Thomas Markussen. 2006. "US Politics and World Bank IDA-Lending." *The Journal of Development Studies* 42(5): 772–94.

Babb, Sarah, and Alexander Kentikelenis. 2018. "International Financial Institutions as Agents of Neoliberalism." In *The SAGE Handbook of Neoliberalism*, 1 Oliver's Yard, 55 City Road London EC1Y 1SP: SAGE Publications Ltd, 16–27. http://sk.sagepub.com/reference/the-sage-handbook-of-neoliberalism/i427.xml (April 16, 2022).

Bailey, Michael A., Anton Strezhnev, and Erik Voeten. 2017. "Estimating Dynamic State Preferences from United Nations Voting Data." *Journal of Conflict Resolution* 61(2): 430–56.

Ben-Artzi, Ruth. 2018. *Regional Development Banks in Comparison: Banking Strategies versus Development Goals*. New York, NY: Cambridge University Press.

Bhattacharya, Amar, and Homi Kharas. 2016. *A New Global Agenda: Implications for the Role of the World Bank*. Washington, D.C.: Brookings. https://www.brookings.edu/research/a-new-global-agenda-implications-for-the-role-of-the-world-bank/ (May 30, 2022).

Bogetic, Zeljko, and Lodewijk Smets. 2017. "Association of World Bank Policy Lending with Social Development Policies and Institutions." *World Bank Policy Research Working Paper* 8263. https://openknowledge.worldbank.org/handle/10986/28924 (November 18, 2023).

Clark, Richard. 2022. "Bargain Down or Shop Around? Outside Options and IMF Conditionality." *The Journal of Politics* 84(3): 1791–1805.

Clark, Richard, and Lindsay R. Dolan. 2021. "Pleasing the Principal: U.S. Influence in World Bank Policymaking." *American Journal of Political Science* 65(1): 36–51.

Copelovitch, Mark, and Stephanie Rickard. 2021. "Partisan Technocrats: How Leaders Matter in International Organizations." *Global Studies Quarterly* 1(3): ksab021.

Cormier, Ben, and Mark Manger. 2018. "The Evolution of World Bank Conditionality: A Quantitative Text Analysis."

Cormier, Ben, and Mark S. Manger. 2022. "Power, Ideas, and World Bank Conditionality." *The Review of International Organizations* 17(3): 397–425.

Cruz, Cesi, Philip Keefer, and Carlos Scartascini. 2021. *Database of Political Institutions 2020*. Washington, D.C.: Inter-American Development Bank Research Department. https://publications.iadb.org/en/node/29752 (December 3, 2023).

Delikanli, Ihsan Ugur, Todor Dimitrov, and Roena Agolli. 2018. *Multilateral Development Banks*. Cham: Springer International Publishing. http://link.springer.com/10.1007/978-3-319-91524-1 (July 21, 2022).

Dreher, Axel. 2004. "A Public Choice Perspective of IMF and World Bank Lending and Conditionality." *Public Choice* 119(3/4): 445–64.

———. 2006. "IMF and Economic Growth: The Effects of Programs, Loans, and Compliance with Conditionality." *World Development* 34(5): 769–88.

Dreher, Axel, Andreas Fuchs, et al. 2022. *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program*. Cambridge ; New York, NY: Cambridge University Press.

Dreher, Axel, and Nathan M. Jensen. 2007. "Independent Actor or Agent? An Empirical Analysis of the Impact of U.S. Interests on International Monetary Fund Conditions." *The Journal of Law and Economics* 50(1): 105–24.

Dreher, Axel, Valentin Lang, B. Peter Rosendorff, and James Raymond Vreeland. 2022. "Bilateral or Multilateral? International Financial Flows and the Dirty-Work Hypothesis." *The Journal of Politics* 84(4): 1932–46.

Dreher, Axel, Jan-Egbert Sturm, and James Raymond Vreeland. 2009a. "Development Aid and International Politics: Does Membership on the UN Security Council Influence World Bank Decisions?" *Journal of Development Economics* 88(1): 1–18.

———. 2009b. "Global Horse Trading: IMF Loans for Votes in the United Nations Security Council." *European Economic Review* 53(7): 742–57.

———. 2015. "Politics and IMF Conditionality." *Journal of Conflict Resolution* 59(1): 120–48.

Feinberg, Richard E. 1988. "The Changing Relationship between the World Bank and the International Monetary Fund." *International Organization* 42(3): 545–60.

Fleck, Robert K., and Christopher Kilby. 2006. "World Bank Independence: A Model and Statistical Analysis of US Influence." *Review of Development Economics* 10(2): 224–40.

Gåsemyr, Hans Jørgen. 2018. *China and Multilateral Development Banks: Positions, Motivations, Ambitions*. Oslo: Norwegian Institute of International Affairs.

Gould, Erica R. 2006. *Money Talks: The International Monetary Fund, Conditionality, and Supplementary Financiers*. Stanford, Calif: Stanford University Press.

Güven, Ali Burak. 2017. "The World Bank and Emerging Powers: Beyond the Multipolarity–Multilateralism Conundrum." *New Political Economy* 22(5): 496–520.

Hernandez, Diego. 2017. "Are 'New' Donors Challenging World Bank Conditionality?" *World Development* 96: 529–49.

Huenemann, Ralph W. 2014. "The World Bank and China: Future Prospects: World Bank and China." *Asia & the Pacific Policy Studies* 1(1): 251–56.

Humphrey, Chris. 2015. *Infrastructure Finance in the Developing World: Challenges and Opportunities for Multilateral Development Banks in 21st Century Infrastructure Finance*. G24 and Global Green Growth Institute.

———. 2016. "The Invisible Hand: Financial Pressures and Organisational Convergence in Multilateral Development Banks." *The Journal of Development Studies* 52(1): 92–112.

———. 2017. "He Who Pays the Piper Calls the Tune: Credit Rating Agencies and Multilateral Development Banks." *The Review of International Organizations* 12(2): 281–306.

———. 2022a. *Financing the Future: Multilateral Development Banks in the Changing World Order of the 21st Century*. 1st ed. New York: Oxford University Press.

———. 2022b. "Follow the Money: The Financial Machinery of MDBs." In *Financing the Future Multilateral: Development Banks in the Changing World Order of the 21st Century*, Oxford University PressOxford, 26–50. https://academic.oup.com/book/45427/chapter/389420184 (February 28, 2023).

———. 2022c. "The Legacy MDBs: World Bank and Major Regionals." In *Financing the Future Multilateral: Development Banks in the Changing World Order of the 21st Century*, Oxford University PressOxford, 74–115. https://academic.oup.com/book/45427/chapter/389420456 (February 21, 2023).

Humphrey, Chris, and Katharina Michaelowa. 2013. "Shopping for Development: Multilateral Lending, Shareholder Composition and Borrower Preferences." *World Development* 44: 142–55.

———. 2019. "China in Africa: Competition for Traditional Development Finance Institutions?" *World Development* 120: 15–28.

Independent Evaluation Office, IMF. 2007. *Structural Conditionality in IMF-Supported Programs*.

Kaja, Ashwin, and Eric Werker. 2010. "Corporate Governance at the World Bank and the Dilemma of Global Governance." *The World Bank Economic Review* 24(2): 171–98.

Kapur, Devesh, John P. Lewis, and Richard Charles Webb. 1997. *The World Bank: Its First Half Century*. Washington, D.C: Brookings Institution.

Kaya, Ayse, and Mike Reay. 2019. "How Did the Washington Consensus Move within the IMF? Fragmented Change from the 1980s to the Aftermath of the 2008 Crisis." *Review of International Political Economy* 26(3): 384–409.

Kentikelenis, Alexander E., Thomas H. Stubbs, and Lawrence P. King. 2016. "IMF Conditionality and Development Policy Space, 1985–2014." *Review of International Political Economy* 23(4): 543–82.

Kentikelenis, Alexander, and Thomas Stubbs. 2023. *A Thousand Cuts: Social Protection in the Age of Austerity*. New York, NY: Oxford University Press.

Kersting, Erasmus K., and Christopher Kilby. 2016. "With a Little Help from My Friends: Global Electioneering and World Bank Lending." *Journal of Development Economics* 121: 153–65.

Kersting, Erasmus, and Christopher Kilby. 2019. "The Rise of Supplemental Lending at the World Bank." *Canadian Journal of Economics/Revue canadienne d'économique* 52(4): 1655–98.

Kilby, Christopher. 2009. "The Political Economy of Conditionality: An Empirical Analysis of World Bank Loan Disbursements." *Journal of Development Economics* 89(1): 51–61.

———. 2013a. "An Empirical Assessment of Informal Influence in the World Bank." *Economic Development and Cultural Change* 61(2): 431–64.

———. 2013b. "The Political Economy of Project Preparation: An Empirical Analysis of World Bank Projects." *Journal of Development Economics* 105: 211–25.

Kirk, Jason. 2012. *India and the World Bank: The Politics of Aid and Influence*. London: Anthem Press. http://universitypublishingonline.org/ref/id/anthem/CBO9780857289513 (June 8, 2022).

Lee, Minho, and Byungwon Woo. 2022. "The Essence of Decisions in International Organizations: Two Cases of World Bank Reforms in 2010 and 2018." *The Korean Journal of International Studies* 20(2): 243–73.

Linn, Johannes F. 2004. "The Role of World Bank Lending in Middle Income Countries." In Washington, D.C., 7.

McLean, Elena, and Christina Schneider. 2014. "Limits of Informal Governance? The Scope of Conditionality in the World Bank." In Princeton University.

Molinari, Andrea, and Leticia Patrucchi. 2020. "Multilateral Development Banks: Counter-Cyclical Mandate and Financial Constraints." *Contexto Internacional* 42(3): 597–619.

Moloney, Kim. 2022. *Who Matters at the World Bank? Bureaucrats, Policy Change, and Public Sector Governance*. New York: Oxford University Press.

Montinola, Gabriella R. 2010. "When Does Aid Conditionality Work?" *Studies in Comparative International*

Development 45(3): 358–82.

Moody. 2022. *IBRD (World Bank) Annual Credit Analysis*. Moody's Investor Service.

Moschella, Manuela, and Catherine Weaver, eds. 2014. "The World Bank in the Post-Structural Adjustment Era." In *Handbook of Global Economic Governance: Players, Power, and Paradigms*, Routledge international handbooks, London ; New York: Routledge.

Nelson, Stephen C. 2014. "Playing Favorites: How Shared Beliefs Shape the IMF's Lending Decisions." *International Organization* 68(2): 297–328.

Peitz, Laura Francesca. 2023. *The Dual Nature of Multilateral Development Banks: Balancing Development and Financial Logics*. 1st ed. Berlin: Cambridge University Press. https://www.cambridge.org/core/product/identifier/9781009392297/type/element (March 30, 2023).

Rickard, Stephanie J., and Teri L. Caraway. 2014. "International Negotiations in the Shadow of National Elections." *International Organization* 68(3): 701–20.

———. 2019. "International Demands for Austerity: Examining the Impact of the IMF on the Public Sector." *The Review of International Organizations* 14(1): 35–57.

Robert Bazbauers, Adrian, and Susan Engel. 2021. *The Global Architecture of Multilateral Development Banks: A System of Debt or Development?* 1st ed. Abingdon, Oxon ; New York, NY : Routledge, 2021. | Series: Routledge explorations in development studies: Routledge. https://www.taylorfrancis.com/books/9781000361315 (June 11, 2023).

S&P Global Rating. 2022. *Abridged Supranationals Interim Edition 2022: Comparative Data For Multilateral Lending*. Standard & Poor's.

Stone, Randall W. 2008. "The Scope of IMF Conditionality." *International Organization* 62(4): 589–620.

Strand, Jonathan, and Michael Trevathan. 2016. "Voting Power of Rising Powers in International Financial Institutions Supporting, Countering." In Hong Kong.

Vreeland, James Raymond. 2003. *The IMF and Economic Development*. 1st ed. Cambridge University Press. https://www.cambridge.org/core/product/identifier/9780511615726/type/book (June 13, 2021).

———. 2007. *The International Monetary Fund: Politics of Conditional Lending*. New York, NY: Routledge, Taylor & Francis Group.

Weaver, Catherine. 2008. *Hypocrisy Trap: The World Bank and the Poverty of Reform*. Princeton: Princeton University Press.

Williamson, John. 1990. "What Washington Means by Policy Reform." In *Modern Political Economy and Latin America*, eds. Jeffry Frieden, Manuel Pastor, and Michael Tomz. Routledge, 18–23. https://www.taylorfrancis.com/books/9780429967443/chapters/10.4324/9780429498893-4

(July 26, 2023).

Winters, Matthew S., and Jaclyn D. Streitfeld. 2018. "Splitting the Check: Explaining Patterns of Counterpart Commitments in World Bank Projects." *Review of International Political Economy* 25(6): 884–908.

World Bank. 2012. "World Bank Country Partnership Strategy to China - FY2013-2016."

Zeitz, Alexandra O. 2021. "Emulate or Differentiate?: Chinese Development Finance, Competition, and World Bank Infrastructure Funding." *The Review of International Organizations* 16(2): 265–92.