

# Negotiating over Transparency: How Authoritarian Ties Influence World Bank Conditionality

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**Abstract:** Do policies pursued by multilateral aid organizations reflect preferences of authoritarian member governments? Previous research finds that conditionality attached to multilateral aid packages can promote democratization when it requires reforms improving government accountability, transparency and civil society participation. However, these institutional principles run contrary to authoritarian governments' preference for obfuscation, reduced public scrutiny and criticism of government decision-making. Using data on conditions negotiated by the World Bank and its borrowers, I show that the rise of China as a global power and a rival aid donor influences World Bank conditionality. Specifically, borrower countries that share China's foreign policy preferences and receive more aid assistance from China accept fewer conditions requiring domestic policy reforms that could support democratization in these borrower countries. I argue that these countries close links to China enable the borrowers to push back against undesirable World Bank conditionality. This study provides novel evidence of autocratic influence on World Bank aid programs and suggests that such influence can weaken the democratizing effect of international organizations.

## **Introduction**

The research on multilateral aid has long established that influential members of financial organizations can hinder the organization's pursuit of development objectives, including economic growth and institutional reforms. For instance, the US exercises pressure directly and indirectly to provide important recipient countries with favorable treatment in the World Bank, the IMF and other international organizations (e.g., Stone, 2008; Kilby, 2013; Kersting and Kilby, 2016; Kilby and Michaelowa, 2019). Similarly, Japan has used its influence in the Asian Development Bank to promote its own geopolitical interests (Kilby, 2006; Lim and Vreeland, 2013). A more recent body of research extends this insight to a new development bank – the Asian Infrastructure Investment Bank (AIIB) – where China exerts pressure on collective decision-making with the goal of securing international political benefits for itself (Kaya and Woo, 2022; Kaya et al., 2023). Therefore, powerful countries' ability to sway policies of multilateral financial organizations is well documented and widely accepted as a determinant of institutional policies and policy outcomes.

New donors, especially donors with authoritarian domestic regimes, may not share traditional donors' preferences in multilateral aid, but their ability to influence assistance provided through Western donor-dominated multilateral channels has been limited. In fact, this divergence of preferences can motivate authoritarian countries to create authoritarian international organizations where these governments can shape policymaking to accomplish their own objectives in international politics (Daugirdas and Ginsburg, 2023). When it comes to established multilateral aid organizations, such as the World Bank, research is still limited and presents a mixed set of results. On the one hand, studies of China's impact on multilateral aid suggest that competition with China makes established donor organizations adjust their approaches to development aid (Li, 2017; Zeitz, 2021; Watkins, 2022). Hernandez (2017) suggests that this new donor may even influence the design of multilateral

aid programs: recipients of Chinese bilateral assistance receive fewer conditions. On the other hand, Clarke and Dolan (2020) question China's influence: they show that bilateral aid from China does not affect the stringency of World Bank conditionality.

This paper builds on these studies but shifts the focus to the credibility of this new outside option for recipient countries. Although they may be interested in presenting China as a viable alternative during negotiations with multilateral organizations, including the World Bank, the established donors may be skeptical of such claims. Specifically, when recipients' portfolios of China-funded aid projects are limited, future aid inflows from China may be similarly weak and fail to replace assistance from Western donor-dominated organizations. Moreover, recipients who distanced themselves from China's foreign policy positions cannot expect to secure significant amounts of aid from China in the future, given that political alignment likely shapes China's willingness to offer aid and some recipient countries' willingness to accept it. Taken together, the two types of recipients' ties with China signal the credibility of a potential pivot toward this alternative donor. When the credibility is high, it should affect these recipient governments' negotiations with multilateral organizations, improving their leverage in extracting more favorable terms.

More importantly, I argue that this leverage is particularly useful in negotiations over conditionality that imposes significant political costs on less democratic recipient governments. I disaggregate World Bank conditionality and identify conditions that are politically sensitive, such as rule of law reforms and institutional changes increasing government transparency and accountability. I show that alignment with China allows World Bank aid recipients to push back against such politically costly reforms.

The paper proceeds as follows. In the next section, I review existing research on the relationship between foreign aid and democratization. I then discuss how China's growing importance in

the area of foreign aid affects the ability of traditional donors to promote democratic reforms, including through the use of conditionality, and present my theoretical argument. After that, I test my theoretical expectations using disaggregated World Bank conditionality data. I find that the two indicators of the credibility of recipients' potential switch to China as an aid donor are associated with less stringent conditionality in politically sensitive areas (such as reforms to improve access to law and justice, or adopt public administration policies to enhance government transparency, accountability, and good governance), as well as overall conditionality. The weakening of the World Bank's leverage to impose this type of conditions has implications for the Bank's ability to encourage reforms that create a more favorable institutional environment for democratization in recipient countries with authoritarian regimes. My study shows how a rising illiberal power exerts influence on the policymaking in an established multilateral aid organization. In addition, I highlight resulting challenges to international cooperation in the area of development assistance and for multilateral efforts to create conditions conducive to domestic democratic reforms.

### **Is Aid Good for Democracy?**

Existing research on the link between foreign aid and democratization provides mixed findings. On the one hand, the impact of aid on political institutions may be similar to that of other non-tax revenues that provide non-democratic governments with resources that can be distributed among population or invested to boost economic growth, while avoiding reforms of political institutions. These aid-funded resource transfers can placate less affluent citizens and decrease their motivation to demand democratization (Morrison, 2007, 2009; Bueno de Mesquita and Smith, 2009, 2010; Ahmed, 2012). Alternatively, governments may use aid to buy electoral support from certain voter groups, thereby propping up their hold on power by cultivating patronage networks (Jablonski,

2014). Such use of aid promotes corruption and weakens democratic institutions in recipient countries. Even when aid programs support specific sectors or programs, recipient governments can then shift some of their own resources away from the areas receiving foreign support, thereby releasing previously unavailable government resources that can now reward supporters or promote other political objectives (Kosack and Tobin, 2006). When used in these ways, foreign aid serves to consolidate authoritarian leaders' hold on power, reduce potential challenges to the incumbents' political control from elites or the population and hence impede democratization in recipient countries.

Other studies point out that, while an authoritarian leader can divert highly fungible resources to buy political support or promote popular acquiescence, such diversion is not always possible. One reason why recipient governments may have a limited ability to divert aid and use it to improve their odds of political survival is the low degree of fungibility of a large share of aid disbursements. Altincekic and Bearce (2014) argue that aid delivery mechanisms often limit the government's control over these external financial resources. Some aid is tied (formally or informally) or comes in the form of technical assistance, whereas other aid disbursements bypass the recipient government altogether (Dietrich, 2013). A related constraint stems from donors' targeting of their aid disbursements to specific sectors or programs that limit the incumbent's leeway in re-directing foreign aid to unintended recipients and programs. For instance, research on democracy aid suggests that such assistance in fact reaches its stated objective of promoting democratization (Finkel et al., 2007). However, the design of such aid packages is of critical importance: unless aid provides support for promoting the rule of law, conducting elections and strengthening civil society participation in democratic processes, foreign aid does not benefit democracy in recipient countries (Scott and Steele, 2011). In sum, donors can and often do design aid programs to prevent foreign aid from serving as an

easy source of financial resources that the government could distribute to supporters or use for other anti-democratic purposes.

Another constraint on aid fungibility is conditionality. Donors can demand certain policy actions to be implemented prior to aid disbursements and such demands can include requirements of pro-democratic political reforms. When donors' threats to withhold aid due to non-compliance with conditionality are credible, aid can successfully promote democratization (Dunning, 2004). Although recipient countries have varying levels of bargaining power in negotiating conditionality with donors (Dreher, 2004; Kilby, 2009), conditionality can reduce recipients' ability to divert aid, thereby increasing the likelihood of achieving objectives of aid programs.

Although existing studies show that recipient governments operate within a range of constraints when donors allocate aid, these constraints do not remain constant over time. Dunning (2004) finds that recipients' control over foreign assistance was weaker during the post-Cold War period than previously, which made foreign aid more effective in promoting democratization. Wright (2009) reports a similar finding for larger support coalitions. The key difference between the two periods is the role of the Soviet Union as a competitor for influence in developing countries. When recipients had a viable outside option in the Soviet Union, they could use their bargaining leverage to weaken conditionality and other constraints on the use of Western financial assistance. Once recipients lost this option, their ability to extract better terms in aid packages weakened, enabling remaining bilateral and multilateral donors to ratchet up pressure for reforms. In addition to greater stringency of conditionality, the loss of the attractive outside option resulted in better enforcement of conditionality (Bearce and Tirone, 2010), greater resource allocation for democratization aid (Scott and Steele, 2011), and increased use of technical aid due to its limited usefulness for patronage (Gibson et al., 2015).

While the disappearance of one donor may not affect recipient governments' bargaining leverage dramatically, given there was still a wide variety of multilateral and bilateral donors after the end of the Cold War, recipients did lose the main authoritarian source of support. Under the new circumstances, they had to accommodate Western donors' democratization preferences more than previously. However, in the late 1990s-early 2000s, China positioned itself as a development partner for many developing nations (Cheng, 2019). The Chinese government implemented reforms of its aid delivery institutions in the mid-1990s by requiring various ministries to coordinate their foreign aid activities and establishing two banks for handling aid disbursements (the Export-Import Bank of China and the China Development Bank). Then, in 2000, China hosted the first Ministerial Conference of the Forum on China–Africa Cooperation (FOCAC), signaling its interest in expanding its influence on the continent by rapidly increasing economic ties (Li, 2017). In Latin America, the 2008 financial crisis led Latin American governments to increase their reliance on China as an alternative source of financing at the time when Western donors pulled back (Kaplan, 2016). Subsequently, China announced a new infrastructure program, the Belt and Road Initiative (in 2013), launched a new international development bank, the Asian Infrastructure Investment Bank (in 2016), as well as a new domestic development agency, the China International Development Cooperation Agency (in 2018). Taken together, this rapid transformation of Chinese aid policies and institutions and the increase in the scale of the country's foreign assistance and its reach around the world made China a viable option for developing countries in need of financial support.

Yet, China's particular attraction as a development partner for some recipients may be its approach to foreign aid. China is an aid donor with an authoritarian domestic regime and hence does not seek to promote democratization. On the contrary, it might be willing to provide support to other authoritarian regimes for geopolitical or other reasons (von Soest, 2015). Moreover, China has

explicitly articulated its policy of non-intervention in recipient countries' domestic affairs. This approach differentiates Chinese aid from other major sources of bilateral and multilateral aid and contrasts with Western donors' promotion of domestic institutional changes (Li, 2017). In sum, the rise of China as a major aid donor presented recipient governments not only with an additional source of funding, but also a source of funding with terms that are much more acceptable to governments that resist domestic political reforms than aid from Western donors.

### **World Bank Conditionality, Institutional Reforms and China's Influence**

The World Bank has traditionally sought to emphasize the economic focus of its assistance programs and distance itself from association with reforms of political nature. Yet, in the 1990s, the consensus emerged in the development community that institution-building is essential to economic development. Legal and judicial reform provides an example of this evolution in the World Bank's approach to development assistance. Initially, the Bank provided support only for narrowly tailored legal and judicial reforms directly linked to economic development. Yet, successful economic reforms could not be sustained in the long run without broader judicial reforms, including greater judicial independence – “an imperative feature of any judicial reform project” (Heymann and Lundburg, 2004; 3).

Western donor-dominated organizations, such as the World Bank, can increase the likelihood of appropriate use of funds, promote more sustainable and equitable development and, more broadly, support democratization by attaching conditions to financial assistance, disbursing aid through channels that increase monitoring and control over aid programs, and penalizing non-compliance with negotiated aid packages. Bermeo (2016) suggests that non-fungible aid is less useful for non-democratic leaders in their efforts to secure their hold on power and dampening prospects for



democratic reforms. Therefore, reducing aid fungibility – through aid delivery modalities or restrictions generated by conditionality – can limit harmful effects of aid on democratization or even turn aid into a positive influence on democratic processes.

One approach toward limiting abuse of foreign aid is technical assistance. Donors' aid packages can contain technical support to target bureaucratic procedures and structures with the goal of making government expenditures more transparent and holding the government responsible in cases of aid mis-use. Institutional development through technical assistance became an important donor priority in the late 1980s and early 1990s. As a result of this shift in the Western donor's aid delivery approach, many authoritarian regimes in Africa underwent political liberalization. These governments could not continue using aid for patronage; to stay in power, they had to grant more political rights to opposition groups and make other pro-democracy adjustments (Gibson et al., 2015).

Conditionality also aims to limit aid abuses and ensure that donor-funded programs achieve their stated objectives. However, conditionality has various limitations. First, strategically important recipients may receive less stringent conditionality (Dreher et al., 2015; Clarke and Dolan, 2021). Second, compliance with conditionality is also a function of the recipient's importance: if a country has strategic significance for a powerful member of an international organization, this powerful country can intervene on behalf of the recipient and reduce the likelihood of punishment for non-compliance; hence, strategically important recipients have few incentives to implement promised reforms. Third, compliance with conditionality depends on recipients' calculation of costs and benefits from compliance. Implementation of conditionality could improve the recipient's attractiveness for foreign direct investment, in which case the recipient is likely to abide by the terms of its aid agreement. Otherwise, compliance becomes less likely (Girod and Tobin, 2016). Finally, recipients become less willing to comply with conditionality when they have attractive outside

options: China, for instance, can provide bilateral assistance that serves as an alternative source of foreign aid, thereby reducing incentives to comply with Western donors' conditionality (Li, 2017; Watkins, 2022).

Outside options do not only affect recipients' compliance with conditionality: they also increase recipient governments' bargaining power in conditionality negotiations with the World Bank, which should result in reduced conditionality. China's role as an outside option is shaped by its choice to avoid policy conditionality in its own lending programs and maintain its position of non-interference in recipients' domestic policies. This approach to development assistance explains why Chinese assistance offers an attractive alternative to aid provided by democratic donors and institutions controlled by them. The presence of this outside option enables developing countries not only to reduce their conditionality compliance levels, but also to reduce the number of imposed conditions in the first place (Hernandez, 2017).

A notable limitation of existing studies is that they implicitly assume that aid recipients dislike all conditions equally and seek to reduce the stringency of conditionality overall or avoid conditionality altogether. I argue that conditions vary in terms of political costs they impose on the recipient government. Higher costs increase the government's reluctance to accept a given condition, and when an aid package features multiple conditions, the recipient should expend more effort against the inclusion of the more costly conditions rather than fight against each condition with the same level of effort or even try to accomplish a much less realistic goal of dropping all conditions.

Specifically, conditions that enhance transparency in government spending, strengthen checks and balances on the executive branch of the government, and increase government accountability can weaken the authoritarian government's hold on power and create venues for democratic changes in the country (Birchler et al., 2016). In this paper, I view conditionality that requires transparency- and

accountability-enhancing reforms, which strengthen mechanisms essential to building and maintaining robust democratic institutions in authoritarian countries, as politically sensitive because it threatens the political survival of the incumbent regime. Therefore, any conditionality promoting such changes should be perceived as excessively politically costly for the non-democratic government and should encounter greater opposition from government leaders. Other conditions, covering areas such as energy efficiency, education access or youth jobs, can be economically costly, but do not affect the government's political survival – and may even extend it. The recipient government should be less reluctant to accept these types of conditions compared to politically sensitive conditionality.

Since recipient governments view greater transparency as a political threat, they are likely to seek out outside options that share their aversion toward transparent decision-making. Cormier (2022) shows that China prefers to provide assistance through less transparent agreements, which shield this new donor – and its aid recipients – from scrutiny. The Chinese government has also explicitly articulated its opposition to conditionality by emphasizing its approach toward development aid as a partnership between the donor and recipient, which ought to be based on principles of equality and mutual respect, rather than preconditions (Xu, 2016: 234). Consequently, transparency-averse governments should find it particularly attractive to turn to China, which does not impose politically sensitive conditionality. An additional benefit of receiving inflows of Chinese aid without attached transparency expectations, from an authoritarian leader's perspective, is that such inflows bypass the system of checks and balances in recipient countries, empowering the executive branch at the expense of the legislative and judicial branches (Ping et al., 2022).

This coupling of China's ability to provide an outside option for recipient countries and its attitude toward government transparency and accountability generate bargaining leverage for countries negotiating aid packages with Western donors, including the World Bank. Recipients that

can credibly demonstrate their interest in turning to this alternative source of funding and their ability to secure aid from this alternative source should be able to extract more favorable terms from the World Bank, especially when it comes to reducing politically costly reforms.

Since Western donors need to gauge whether a recipient could indeed turn to China as an alternative aid donor during negotiations over the terms of foreign aid allocations, the recipient's past record of attracting financial aid from China and indicators of the likelihood of receiving Chinese aid in the future provide valuable information in this regard. Specifically, stronger existing aid links indicate that the recipient was willing to request assistance from China in the past, and in turn China was willing to approve funding disbursements for this country. Since aid flows tend to show substantial path dependence, Western donors can conclude that today's recipient of Chinese aid can count on the continuation of this relationship in the future. Another credibility indicator is the degree of political closeness between the recipient and China. Voting behavior in the UN General Assembly can provide information on the alignment of countries' foreign policy preferences and their willingness to cooperate in other areas of international politics, including foreign aid (Alesina and Dollar, 2000; Kilby, 2009, 2011; Fuchs and Vadlamannati, 2013; Vreeland and Dreher, 2014). Recent research indicates that China is no exception in this area of international politics as it pays close attention to other countries' behavior in the UN General Assembly: China's concessional assistance flows are positively associated with recipients' choice to vote in line with China (Struver, 2016; Dreher et al., 2018; Guillon and Mathonnat, 2020), which points to China's willingness to reward other governments' political closeness.

Two countries can illustrate the different level of credibility of the outside option of Chinese aid. Although China has become an important donor for many of the World Bank's aid recipients, it remained an unlikely funding option for some countries. For instance, Argentina's political

relationship with China was distant during the period under study, especially prior to 2007, as reflected in their divergent UN General Assembly voting records. The first Chinese aid projects in Argentina received approvals in 2007, and by 2017 there were 67 at different stages of implementation (i.e., approved, ongoing, or closed). In contrast, Pakistan enjoyed a close relationship with China during the same period: the two countries had very similar voting patterns in the UN General Assembly. Their alignment was similarly clear in China's aid allocations to Pakistan: China funded 280 projects in Pakistan, and there were no years without new project approvals.<sup>1</sup> In sum, Argentina could not credibly claim China as an outside aid option in its negotiations with the World Bank, particularly before 2007, whereas Pakistan could plausibly point to China as its alternative source of foreign assistance.

In sum, I expect recipient countries to have greater bargaining leverage vis-à-vis the World Bank when they can credibly invoke their close ties to China. Such enhanced bargaining power will help them to reduce conditionality in politically sensitive categories (such as rule of law), all else being equal. In addition, if the number of sensitive conditions declines, the overall number of conditions and the number of conditionality categories should decline as well.<sup>2</sup> The following hypotheses summarize my theoretical expectations:

*Hypothesis 1a: Recipients with greater foreign policy preference similarity with China receive fewer conditions than other recipients.*

*Hypothesis 1b: Recipients with greater foreign policy preference similarity with China receive conditions in fewer categories than other recipients.*

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<sup>1</sup> Based on project data available from AidData's Global Chinese Development Finance Dataset, v. 2.0 (<https://www.aiddata.org/data/aiddatas-global-chinese-development-finance-dataset-version-2-0>).

<sup>2</sup> The latter prediction hinges on the assumption that recipients with close ties to China do not accept more conditions in other categories as a result of reduced conditionality in politically sensitive areas. Table A2 in the appendix provides support for this assumption: alignment with China does not affect conditions in other themes.

Hypothesis 2a: *Recipients a larger number of Chinese aid projects receive fewer conditions than other recipients.*

Hypothesis 2b: *Recipients with a larger number of Chinese aid projects receive conditions in fewer categories than other recipients.*

Hypothesis 3: *Recipients with greater foreign policy preference similarity with China receive fewer conditions in politically sensitive categories than other recipients.*

Hypothesis 4: *Recipients with a larger number of Chinese aid projects receive fewer conditions in politically sensitive categories than other recipients.*

## **Data**

The primary source of data for this study is the Development Policy Financing (DPF) dataset maintained by the World Bank.<sup>3</sup> Projects recorded in this dataset require borrowing governments to implement specific measures – i.e., prior actions – in support of project objectives. These prior actions negotiated between governments and the Bank represent project conditionality – the focus of this study.

World Bank conditionality underwent reforms when the Bank modified its structural adjustment lending to a less short-term oriented DPF approach in 2005. The sectors and themes of associated prior actions were also modified in this transformation, and during a transitional decade (from 2004 to 2014) the old taxonomy and definitions co-existed with their replacements. To maintain measurement consistency and facilitate the interpretation of my results, my research uses the DPF dataset with information on World Bank conditionality for the more recent period, i.e., the period

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<sup>3</sup> See <https://www.worldbank.org/en/what-we-do/products-and-services/financing-instruments/development-policy-financing>

after 2004. This period also overlaps to a large extent with the time coverage of the AidData's Global Chinese Development Finance Dataset, which is the source of information on Chinese foreign aid.<sup>4</sup> The merged dataset contains information for 807 World Bank projects, approved between 2004 and 2017.

In addition to prior actions, the DPF dataset provides project information (project ID, project timeline from approval to completion, lending channel, project outcome evaluations, and committed funding amount), as well as the text of individual prior actions. For example, in 2005, Romania's First Programmatic Adjustment Loan listed "Approval by Parliament of amendments to the Bankruptcy Law" as a prior action in the new sub-theme of "Credit Infrastructure," and a prior action in the old sub-theme of "Legal institutions for a market economy."

To test my hypotheses of China's influence on World Bank conditionality, I create several dependent variables. First, I construct measures of stringency of conditionality. Previous studies rely on two indicators: the number of conditions attached to a project and the number of categories from which prior actions are drawn (Stone, 2008; Dreher, 2009; Copelovitch, 2010; Clarke and Dolan, 2021). I generate prior action and theme counts (*Condition count* and *Theme count*). Previous studies suggest that one consequence of the 2005 institutional reform was a reduction in the conditionality stringency of World Bank structural adjustment projects. My dataset, which captures post-reform conditionality, suggests that this decline in the number of average number of conditions continued after the 2005 reform: in the first two post-reform years, the average number of prior actions was 12, while in the last two years under study the average number was just 8. There was also a slight decline in the average number of prior action themes: while an average DPF project required prior actions

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<sup>4</sup> Version 2.0 of the AidData's Global Chinese Development Finance Dataset covers the period from 2000 until 2017 (<https://www.aiddata.org/data/aiddatas-global-chinese-development-finance-dataset-version-2-0>).

drawn from 7 themes right after the 2005 reform, this number went down to 6 by the last two years of the period under study.

A second set of dependent variables focuses on themes where I expect borrowers to be most keen on pushing back against conditionality when the borrowers can more credibly turn to China as an outside option. Specifically, the areas of public sector management and the rule of law touch on politically sensitive matters of public spending, and equality and accountability under law. In the DPF dataset, the themes of “Rule of law,” “Public administration,” and “Public sector management” correspond to the politically sensitive themes. Examples of conditions in these themes include “The Recipient has adopted the Budget Transparency Code and has submitted it to its National Assembly” and “Adoption of a legal framework governing the accountability framework for judges (immunity, tenure, mandate).” Hence, I count prior actions in these three categories. The resulting measures (*RL*; *PA*; and *PSM*) represent the stringency of sensitive-area conditionality.

One of my main explanatory variables is a recipient country’s foreign policy preference similarity with China. The (dis)affinity measure, *Ideal Point Distance from China* (or *IPD from China*), is derived from voting records in the UN General Assembly (Bailey, Strezhnev, and Voeten, 2017) and captures preference distance between China and a given World Bank recipient country. Most recipients align closely with the rising power: the median IPD score equals .41. For reference, the median score for IPD from the US for the same set of countries is 3.1, which indicates that World Bank recipients’ preferences show far greater alignment with China than with the most influential shareholder of the World Bank.

Another important explanatory variable, *Chinese aid project count*, captures recipients’ existing aid ties to China. This annual measure is based on data collected by AidData: the Global Chinese Development Finance Dataset records information on over 13,000 projects in 165 countries



over the period between 2000 and 2017.<sup>5</sup> Although this is the most comprehensive dataset of Chinese bilateral assistance, it has a notable shortcoming: approximately 38% of project observations have missing information on the amount of committed aid. Therefore, instead of creating an explanatory variable based on aid amounts, I construct an aid project count. This approach helps to mitigate the problem of missing data to some extent: the aid count measure draws on the entire sample of projects from the AidData dataset and is highly correlated with the aid amount variable created from non-missing observations (the correlation coefficient equals 0.43). The count measure also has the benefit of capturing the regularity with which borrowers turn to this outside bilateral option and receive a positive response from China.

To account for economic determinants of conditionality, I add several control variables, all taken from the World Bank's World Development Indicators.<sup>6</sup> I include GDP per capita (logged), the annual rate of GDP growth, trade openness (i.e., the annual volume of trade as a share of a country's GDP), net inflows of foreign direct investment as a share of GDP, short-term debt as a share of a country's exports of goods, services and primary income, and total debt service as a share of exports of goods, services and primary income. I also include a dummy for the period starting in 2012, when the transition to the new conditionality taxonomy was completed and the typical number of prior conditions attached to a World Bank project declined (Clarke and Dolan, 2021). Finally, I add two political controls. The first control is a borrower's affinity with the US, constructed similarly to the indicator of affinity with China and sourced from the same UN voting dataset. The two affinity measures, *IPD from China* and *IPD from US*, are highly correlated: the bivariate correlation coefficient is -0.66 and significant at .01 in my dataset. The second political control is the liberal

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<sup>5</sup> The dataset is available here: <https://www.aiddata.org/data/aiddatas-global-chinese-development-finance-dataset-version-2-0>.

<sup>6</sup> See <https://datacatalog.worldbank.org/dataset/world-development-indicators>.

democracy index from V-Dem, which gauges the protection of individual and minority rights from the potential abuse of power by the government or the majority. Higher values represent greater protection levels. The average index value in my dataset is .35, which suggests that the average borrower is more similar to China than the US in this respect: the US average for the period under study is .81, whereas China's is .05. This suggests that many recipient governments are likely to view pro-democracy conditionality as politically costly and prefer to minimize it as much as possible.

Given that my dependent variables are count measures, I estimate negative binomial models with country fixed effects. The results are robust to the use of alternative estimation techniques, such as linear and Poisson models. All explanatory variables are lagged by one year. Table A1 in the Appendix provides summary statistics and data sources for all variables used in this study.

## **Discussion of Results**

My analyses yield evidence of the theorized relationship between a recipient country's ties with China, which signal the credibility of turning to China as an outside foreign aid option, and willingness to accept more stringent conditionality, more broadly, and more stringent conditionality in politically sensitive areas, more specifically. When a government's relationship with China signals a more credible outside option for securing foreign aid, i.e., when values of *Chinese aid project count* increase, and values of *IPD from China* decrease, the government agrees to implement fewer prior actions overall, prior actions in fewer categories, and fewer prior actions in categories that can strengthen the recipient country's democratic institutions.

I test my hypotheses in five multivariate models with various economic and political controls. Table 1 provides empirical evidence indicative of a positive relationship between a recipient's ties with China and reluctance to implement costly conditionality. The relationship is statistically significant for both explanatory variables of interest at conventional levels across all nine

specifications.<sup>7</sup> The results are also substantively significant. Using estimates from the public administration model in Table 1, I find that a standard deviation increase in *IPD from China* from its mean results in the adoption of 1.1 additional prior actions in the public administration category, while all other variables are fixed at their mean values. Conditional on the inclusion of this category in project conditionality, the average number of public administration prior actions per project is 2.1 with the standard deviation of 1.6. Moreover, the median number of such conditions equals 2. This indicates that lower credibility of a recipient's outside aid option due to weaker links to China can have a sizeable substantive effect on the World Bank's ability to attach more politically sensitive conditions to its aid projects.

Table 1: Models of World Bank Conditionality

	<i>Condition count</i>	<i>Theme count</i>	<i>RL</i>	<i>PA</i>	<i>PSM</i>
<i>IPD from China</i>	0.26*** (0.10)	0.18* (0.11)	1.75*** (0.42)	0.96*** (0.27)	0.32* (0.17)
<i>Chinese aid project count</i>	-0.01* (0.00)	-0.01*** (0.00)	-0.05 (0.03)	-0.03** (0.01)	-0.02** (0.01)
<i>LibDem Index</i>	0.38 (0.29)	0.25 (0.33)	1.77 (1.25)	1.66** (0.67)	0.43 (0.49)
<i>Post 2012</i>	-0.05 (0.04)	0.04 (0.05)	0.34 (0.24)	0.02 (0.11)	-0.16** (0.07)
<i>GDPPC</i>	-0.77*** (0.14)	-0.42* (0.23)	-0.59 (0.38)	-0.68*** (0.20)	-0.89*** (0.17)
<i>GDP Growth</i>	0.00 (0.01)	0.01 (0.01)	0.04 (0.03)	0.02 (0.02)	0.02** (0.01)
<i>Trade/GDP</i>	-0.00 (0.00)	-0.00 (0.00)	-0.01 (0.01)	0.00 (0.00)	-0.00 (0.00)
<i>FDI/GDP</i>	0.01 (0.01)	0.00 (0.01)	0.01 (0.03)	-0.00 (0.02)	-0.01 (0.01)
<i>Short-Term Debt/Exports</i>	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	-0.01 (0.01)	-0.00 (0.00)
<i>Debt Service/Exports</i>	0.01* (0.00)	0.00 (0.00)	-0.00 (0.01)	-0.00 (0.01)	0.00 (0.00)

<sup>7</sup> The coefficient on the aid project count variable in the Rule of Law model is the only exception.

<i>IPD from US</i>	0.23** (0.09)	0.25** (0.11)	1.53*** (0.40)	0.78*** (0.23)	0.29* (0.15)
Constant	8.21*** (1.28)	20.10 (223.42)	-1.91 (3.68)	2.30 (1.82)	6.90*** (1.53)
N	629	629	620	623	627
LL	-1794.7	-1449.5	-315.49	-1053.2	-1518.5

Note: Fixed-effects negative binomial models; standard errors in parentheses. All explanatory variables are lagged by one year. Unit of analysis: project.

\* p<0.1, \*\* p<0.05, \*\*\* p<0.01

Next, I conduct a robustness check, which is reported in Table 2. I restrict the sample of all aid recipients to those with less democratic systems, i.e., the analysis includes only countries with values of the Liberal Democracy index below the 90<sup>th</sup> percentile (i.e., with values of less than 0.7). These are the countries that are most likely to object to World Bank conditionality that could pave way for democratization. I find that ties with China enhance bargaining leverage of this group of recipients, given that they are able to reduce reform requirements in the politically sensitive categories, as well as overall stringency of World Bank conditionality.

In addition, Tables 1 and 2 report several notable findings for control variables. An international political control variable, *IPD from US*, has a positive association with conditionality stringency. This result reaches statistical significance at conventional levels in nine out of ten models, which means that foreign policy affinity with the US reduces the number of prior actions, the number of themes, and the number of democratization-relevant conditions. This finding is consistent with previous research, which finds that World Bank staff treat borrowers aligned with the US differently from others by reducing burdensome conditionality (Clarke and Dolan, 2021). The liberal democracy index is positively and significantly associated with stringent conditionality in the public administration sector, which suggests that more democratic governments are less concerned about accepting at least some of the politically sensitive conditions due to their greater transparency (Hollyer et al., 2011). I also find that the 2012 World Bank reforms led to fairly limited changes in

conditionality levels: only in the public sector management models, the coefficient on the post-2012 dummy is negative and significant, which means that the World Bank imposed fewer conditions in this category after 2012, while overall conditionality levels and conditionality in other politically sensitive categories remained mostly unchanged.

Finally, recipients' economic circumstances can shape the degree of conditionality stringency, as Tables 1 and 2 show. In the full sample and subsample analyses, countries with higher development levels tend to accept less stringent conditionality. In the models based on the subset of less democratic recipients, I find that lower growth rates and higher debt service burdens are associated with more stringent conditionality. Together, these findings indicate that a stronger economy improves a borrowing country's bargaining position vis-à-vis the World Bank and helps to reduce the scale and scope of conditionality.

Table 2: Models of World Bank Conditionality (Projects in Less Democratic Countries)

	<i>Condition count</i>	<i>Theme count</i>	<i>RL</i>	<i>PA</i>	<i>PSM</i>
<i>IPD from China</i>	0.27*** (0.10)	0.18* (0.11)	1.57*** (0.43)	1.09*** (0.27)	0.36** (0.17)
<i>Chinese aid project count</i>	-0.01* (0.00)	-0.01*** (0.01)	-0.04 (0.03)	-0.04*** (0.01)	-0.02*** (0.01)
<i>Post 2012</i>	-0.02 (0.04)	0.07 (0.06)	0.34 (0.25)	0.07 (0.12)	-0.16** (0.08)
<i>GDPPC</i>	-0.81*** (0.15)	-0.47** (0.23)	-0.38 (0.40)	-0.92*** (0.23)	-1.02*** (0.18)
<i>GDP Growth</i>	0.01 (0.01)	0.01* (0.01)	0.05* (0.03)	0.04* (0.02)	0.04*** (0.01)
<i>Trade/GDP</i>	-0.00 (0.00)	-0.00 (0.00)	-0.01* (0.01)	-0.00 (0.00)	-0.00 (0.00)
<i>FDI/GDP</i>	0.01 (0.01)	0.00 (0.01)	0.03 (0.03)	0.00 (0.02)	-0.01 (0.01)
<i>Short-Term Debt/Exports</i>	0.00 (0.00)	0.00 (0.00)	0.00 (0.01)	-0.00 (0.01)	0.00 (0.00)
<i>Debt Service/Exports</i>	0.01** (0.00)	0.00 (0.00)	-0.00 (0.01)	0.01 (0.01)	0.01** (0.01)
<i>IPD from US</i>	0.26***	0.25**	1.42***	0.65***	0.21

	(0.09)	(0.11)	(0.42)	(0.24)	(0.16)
Constant	8.49***	20.32	-2.07	4.82**	8.05***
	(1.32)	(258.90)	(3.92)	(2.08)	(1.61)
N	577	577	549	573	575
LL	-1295.96	-1051.43	-286.34	-716.93	-1076.16

Note: Fixed-effects negative binomial models; standard errors in parentheses. All explanatory variables are lagged by one year. Unit of analysis: project. The sample is limited to recipients with LibDem scores below the 90<sup>th</sup> percentile.

\* p<0.1, \*\* p<0.05, \*\*\* p<0.01

Finally, I use the text of prior actions to assess whether the contents of conditions in the Rule of Law and Public Sector themes indeed emphasize priorities of democratization reforms, such as enhanced transparency in the public sector. For each prior action in the dataset, I code whether the word stem “transparen”<sup>8</sup> appears in the text. Next, I aggregate this information at the project level. The project-level transparency count allows me to estimate bivariate models using pairwise comparisons of means: these models evaluate whether conditionality in the categories of rule of law, public administration, and public sector management is more likely to include reforms promoting transparency than other conditionality categories. Results shown in Table 3 provide supporting evidence for this expectation: the categories that I identified as supportive of democratization are more likely to mention transparency than other categories. The results are statistically significant for the public administration and public sector management categories. These findings lend support to the coding decision to classify these themes as politically sensitive due to their emphasis on greater transparency, which can weaken authoritarian governments’ control in these countries.

Table 3: Pairwise Differences in Mean “Transparency” Counts for Conditionality Categories

	<i>Rule of law</i>	<i>Public administration</i>	<i>Public sector management</i>
	Conditionality categories (binary)		
<i>Transparency count</i>	.04 (.08)	.21*** (.05)	.28*** (.07)

Note: pairwise comparisons of means; standard errors in parentheses. \* p<0.1, \*\* p<0.05, \*\*\* p<0.01

<sup>8</sup> World Bank conditions use two words with this stem: transparency and transparent.

## Conclusion

This study investigates whether the World Bank's main instrument for promoting institutional reforms, especially reforms enhancing government accountability, transparency and adherence to the rule of law has been blunted by the increasing dominance of China, an authoritarian alternative to Western foreign aid. Previous studies suggest that China does offer an attractive outside option for many recipient countries and this may undermine the World Bank's ability to impose and enforce stringent conditionality. I argue that China's influence is more nuanced than these findings suggest: it enables recipient government to push against conditionality that may decrease their odds of political survival. Non-democratic governments should be particularly concerned about the effect of political reforms that limit the executive power and shed light on their actions – i.e., conditions that strengthen these governments' opponents and create venues for democratization. Therefore, I expect the influence of China as an outside option to be reflected in reduced conditionality in these politically sensitive areas.

Using data on World Bank conditionality, I show that recipient governments who have been successful in securing Chinese aid projects and whose foreign policy preferences are more aligned with those of China are less willing to accept stringent conditionality, in general, and conditionality in the categories of public sector management, public administration and the rule of law, which are more likely to require greater transparency than other categories of conditions. Rather than demanding less stringent conditionality across the board, recipient governments focus on areas of high political importance. As a result, the World Bank's conditionality becomes less effective in encouraging pro-democracy changes in recipient countries.

These findings have direct policy implications for Western donors' ability to use aid conditionality to support democratic reforms. As long as China continues offering substantial

financial assistance without requiring any domestic political reforms, like-minded governments will take advantage of this leverage in their negotiations with the World Bank. The multilateral organization may still impose a number of other conditions, but not in the categories that are politically sensitive from non-democratic recipient governments' perspective.

Future research needs to address the question of effective responses to this challenge to Western-donor dominated multilateral organizations. Several directions seem particularly promising from the policy perspective. First, the World Bank and other international organizations need to prioritize reforms enhancing government transparency and accountability in its conditionality negotiations. Such reforms improve aid effectiveness in the short run and create domestic conditions supportive of democratization in recipient countries in the long run. Therefore, multilateral donors should use their bargaining leverage in negotiations with recipient countries to require pro-democracy conditions in exchange for reduced conditionality in other areas. Second, linkage politics can strengthen donors' bargaining position; therefore, multilateral organizations can use offers of additional aid or other positive incentives to reduce the impact of recipients' outside options during conditionality negotiations. Finally, China's attractiveness as an alternative donor may not last, even for developing countries with authoritarian regimes, because Chinese assistance can result in rapidly accumulating debt burdens, require substantial reliance on Chinese companies and labor in project implementation, and impose other costs, some of which may become evident gradually due to opaque terms of Chinese aid programs (Brautigam, 2011; Horn et al., 2020; Kern and Reinsberg, 2022). Therefore, Western donor-dominated organizations should resist attempts to water down transparency-enhancing conditionality that can create a more favorable environment for democratic processes in the long run, even if that means that some projects will not be implemented.



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## Appendix

Table A1: Summary Statistics and Data Sources

Variable	Mean	Std. Dev.	Min.	Max.	Source
<i>Condition count</i>	9.9	4.9	1	47	DPF dataset
<i>Theme count</i>	6.1	2.4	1	17	DPF dataset
<i>RL</i>	0.1	0.4	0	4	DPF dataset
<i>PA</i>	1.4	1.9	0	17	DPF dataset
<i>PSM</i>	3.5	3.2	0	26	DPF dataset
<i>China aid count</i>	4.4	5.2	0	36	AidData
<i>IPD from China</i>	0.6	0.6	0.002	3.5	Bailey et al. (2017)
<i>LibDem index</i>	0.4	0.2	0.03	0.9	V-Dem
<i>Post 2012</i>	0.3	0.5	0	1	
<i>GDPPC (ln)</i>	7.6	1.0	5.3	10.1	WDI
<i>GDP growth</i>	3.5	5.4	-23.8	89.0	WDI
<i>Trade/GDP</i>	63.7	31.7	0.8	225.0	WDI
<i>FDI/GDP</i>	3.5	6.0	-11.2	103.3	WDI
<i>Short-Term Debt/Exports</i>	24.3	36.9	0	530.1	WDI
<i>Debt Service/Exports</i>	19.4	16.4	0.1	156.9	WDI
<i>IPD from US</i>	3.0	0.6	1.1	4.7	Bailey et al. (2017)

Table A2: Models of World Bank conditionality (in categories that are not politically sensitive)

	Rural & urban development	Environment	Human development	Social development	Finance	Private sector
<i>IPD from China</i>	0.90** (0.44)	-0.24 (0.34)	0.30 (0.31)	0.23 (0.37)	0.35 (0.31)	-0.27 (0.33)
<i>Chinese aid project count</i>	0.00 (0.02)	-0.01 (0.02)	-0.00 (0.01)	-0.00 (0.02)	0.00 (0.02)	0.00 (0.02)
<i>LibDem Index</i>	-0.47 (1.03)	0.37 (0.71)	1.07 (0.69)	0.88 (0.94)	0.45 (0.74)	1.20 (0.86)
<i>Post 2012</i>	0.13 (0.19)	0.34** (0.15)	-0.38** (0.15)	0.06 (0.18)	-0.14 (0.16)	0.19 (0.15)
<i>GDPPC</i>	-0.37 (0.23)	-0.89*** (0.19)	-0.28 (0.19)	-0.37 (0.27)	0.00 (0.18)	-1.45*** (0.33)
<i>GDP Growth</i>	0.09*** (0.03)	0.02 (0.02)	-0.01 (0.02)	-0.02 (0.02)	-0.01 (0.02)	0.04* (0.02)
<i>Trade/GDP</i>	-0.01* (0.01)	0.00 (0.00)	0.01*** (0.00)	0.00 (0.01)	0.01* (0.00)	0.01 (0.01)
<i>FDI/GDP</i>	-0.00 (0.03)	0.03 (0.02)	-0.02 (0.03)	0.01 (0.03)	-0.01 (0.02)	0.02 (0.02)
<i>Short-Term Debt/Exports</i>	-0.01 (0.01)	-0.00 (0.01)	0.00 (0.01)	0.02** (0.01)	0.02** (0.01)	0.02** (0.01)
<i>Debt Service/Exports</i>	-0.03** (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	0.01 (0.01)	0.02** (0.01)
<i>IPD from US</i>	-0.18 (0.39)	-1.24*** (0.31)	0.10 (0.30)	-0.13 (0.36)	0.23 (0.29)	-0.09 (0.29)
Constant	3.25 (2.35)	9.32*** (2.00)	0.26 (1.74)	1.73 (2.47)	-3.13 (1.95)	9.82*** (3.02)
N	526	556	583	529	572	574
LL	-403.69	-595.67	-670.67	-444.16	-556.86	-514.60

Note: Fixed-effects negative binomial models; standard errors in parentheses. All explanatory variables are lagged by one year. Unit of analysis: project.

\* p<0.1, \*\* p<0.05, \*\*\* p<0.01