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Peace, Prevention, and Global Public Goods: Exceptional Finance and Inducing Reform from Aid Recipients

By

Daniel Balke

A dissertation submitted in partial satisfaction of the

requirements for the degree of

Doctor of Philosophy

in

Political Science

in the

Graduate Division

of the

University of California, Berkeley

Committee in charge:

Professor Aila Matanock, Chair
Professor Susan Hyde
Professor Michaela Mattes
Professor Martha Wilfahrt

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Abstract

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by

Daniel Kiernan Balke

Doctor of Philosophy in Political Science

University of California, Berkeley

Professor Aila Matanock, Chair

When does international intervention work? Efforts by external actors to shape the behavior of sovereign states – such as their economic, political, foreign, and social policies – has received significant attention in international relations scholarship. Yet, the conditions under which intervention succeeds, and the mechanisms through which it does so, remain underspecified. In some cases, intervenors – whether other states, international organizations, or private actors – successfully compel sovereign targets to take actions they otherwise would not, while in others these endeavors have little or no effect. What explains this variation?

I explore this question in the context of aid conditionality. Conditionality – in which foreign actors provide finance to developing countries in exchange for specified policy reforms or other actions – blends elements of harder, more coercive forms of intervention, such as humanitarian military intervention and political and economic sanctions, with elements of softer forms of intervention, like diplomacy and international law. Conditionality has generated a rich scholarly debate, with many studies finding that its efficacy is contingent on the incentives of recipient nations to comply with the conditions external actors seek to impose, but existing research has not devoted adequate attention to variation in the stringency of aid conditions – that is, how much recipients oppose or embrace them – or to the full range of financial tools external actors have to induce recipients to adopt them. Yet, recipients may have more incentives to adopt conditions that reflect their preferences, while external actors may be able to further shape recipient incentives through the types of financial support they offer, including using exceptions to aid provision policies to make adoption of conditions more beneficial. If that is the case, then overlooking variation in the stringency of conditions and the use of exceptional financial practices by aid providers may have hindered the ability of aid scholars to understand the efficacy of conditionality in shaping the behavior of recipient states.

My dissertation takes up this puzzle. Specifically, I ask whether and under which circumstances the use of exceptional financial practices by international financial institutions (IFIs) like the

World Bank can induce aid recipient countries to adopt policy conditions they otherwise would not. I argue preference alignment plays a significant role in recipient adoption of aid conditions: The more aligned conditions are with recipient preferences – that is, the less stringent they are –, the more likely recipients are to embrace them, while the more aligned conditions are with IFI preferences, the more likely IFIs are to use positive and punitive exceptional financial measures like side payments and penalties to compel recipients to adopt their conditions. I argue exceptional finance should prove especially effective in inducing reforms associated with costly development action – such as the promotion of peace, crisis prevention, and global public goods provision –, which represent top IFI objectives that recipients tend to broadly support but do not typically consider top priorities for the use of scarce aid resources. Using a mixed methodological approach that blends large-N statistical analysis of World Bank programs from 2010-2019 with a regression discontinuity design and qualitative country case studies, I find strong support for my theoretical argument but also important limitations to its scope.

My dissertation has important policy implications not only for IFIs but for international intervention in other areas. In the realm of aid, my findings suggest that the use of exceptional financial inducements can prove a highly effective measure to compel aid recipients to increase contributions to global priorities like climate change mitigation, refugee support, pandemic prevention, and resolving and averting civil conflict. This contention has taken center stage in recent debates over the future of the World Bank, with key donors encouraging the Bank to make more expansive use of its financial resources to induce recipient contributions to global goals. My work also offers insights for international intervention in other substantive domains, suggesting that, when states broadly support the objectives that intervenors promote, they sometimes simply need a nudge to prioritize them over, or alongside, domestic objectives. External actors can often provide that nudge through financial assistance that deviates from aid norms and allows recipients to pursue domestic priorities while also advancing global agendas.

To Mom and Dad

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1. Introduction: Aid Conditionality and the Missing Middle of International Intervention

In 2016, Jordan asked the world for help. Since the outbreak of the Syrian civil war in 2011, Jordan had provided a global public good by hosting Syrian refugees: Jordan's willingness to open its borders eased the burden on other nations to do so. Over time, the vast majority of Syrians flooded into cities and towns, where they consumed services alongside Jordanian citizens, rather than refugee camps where their needs would be managed primarily by humanitarian groups. Meeting a surge in demand for education, healthcare, energy, water, and other basic needs taxed the capacity of the Jordanian government and increased fiscal and financial pressure. Jordan felt solidarity with Syrians fleeing for their lives. Yet, the country had significant needs of its own, and the government's ability to provide for its citizens was now being jeopardized by the support the world asked it to provide to non-nationals.

The economic pressure of this situation proved increasingly unworkable. As a middle-income country, Jordan was too rich to receive grants or borrow from international financial institutions (IFIs) like the World Bank at the concessional interest rates typically reserved for the world's poorest nations. Yet, it was too poor to finance the needs of refugees and Jordanian nationals from its own resources. Nor did Jordan have a financial track record that would allow it to borrow from private creditors at affordable interest rates by issuing bonds on international capital markets. As its ability to strike a balance reached the limit, Jordan reached out to the international community and essentially said, 'Let's make a deal.'

This request set off a strategic interaction between Jordan and the World Bank in which each party sought to secure an aid program on its preferred substantive and financial terms. Jordan wanted to maximize the amount of support the program's activities would provide to its own nationals, while also minimizing the amount of money it would have to repay. The World Bank, for its part, sought a program that would also provide socioeconomic benefits to Syrian refugees and minimize deviation from the financing terms Jordan would normally receive as a middle-income country. The Bank wanted Jordan to do more than keep its borders open. It also wanted Syrians to gain access to public services, labor markets, and other benefits that would allow them to exit the shadows of informal existence and more fully, and prosperously, integrate into Jordan's social and economic life.

In the end, Jordan and the World Bank, with support from Western donors, compromised on a deal that saw Jordan receive exceptionally generous financial terms for World Bank programs that explicitly benefited Syrian refugees *and* the Jordanian communities that hosted them. Formalized within the framework of a new initiative called the Concessional Financing Facility, donors including the United States, United Kingdom, Sweden, Japan, and others agreed to provide grants that would reduce, or 'buy down', the interest rates on World Bank programs from the normal levels that Jordan typically received as a middle-income country to the concessional rates typically reserved for the Bank's low-income members. For donors and the Bank, providing finance on exceptional terms not only helped Jordan better afford the costs of hosting refugees, but also incentivized it to provide refugees with greater socioeconomic

opportunities. For Jordan, the deal eased the government's financial burden and also allowed it to credibly argue to its people that hosting refugees would come with benefits that kept the country's own domestic development agenda on track. This compromise changed Jordan's approach to refugee issues: In the first program financed under the Facility, it agreed to offer formal working permits to 130,000 Syrian refugees, a policy reform that Jordan had resisted for years.

The deal Jordan's request produced, and the reform it helped catalyze, is the topic of my dissertation. I ask whether, when, and how international actors can compel countries to take actions they otherwise would not. Specifically, I seek to understand when, in the context of foreign aid, the use of exceptional financial incentives of a positive or punitive nature can induce reforms that countries previously refused to adopt. I argue such incentives work particularly well when international actors want countries to take actions that those countries are broadly favorable towards but that do not reflect their top priorities. My dissertation explores this question in the context of strategic interaction between aid recipients and IFIs, which I argue are especially well-positioned to induce reform.

While I focus primarily on negotiations over foreign aid, my work seeks to engage a broader, cross-disciplinary research agenda on international intervention. I am fundamentally interested in what it takes for the international community to compel sovereigns to undertake actions that contribute to global goals but that sovereigns may have political, economic, or other reasons to resist. International intervention is often associated in academic and policy discourse with foreign military incursions and peacekeeping missions. However, I define the concept more broadly to also include the use of foreign aid conditions, political and economic sanctions, international legal covenants, and repayment contracts for sovereign debt. Across each of these domains, international organizations (IOs), powerful donor countries, private creditors, and other external actors seek to induce specific changes or behaviors from sovereign states, but those efforts meet with varying levels of success, as evidenced by the continual circumvention of aid conditions and sanctions, abrogation of human rights and other treaties and conventions, and default on foreign debts.

Within this broader prism, my work aims to shed new light on an old question: When does international intervention work, and how? This question is more pressing than ever among academics and policymakers alike. The ravages of war, the humanitarian devastation of natural and human-made disasters, and the dire threats posed by global public bads such as climate change, pandemics, and refugee crises have made collective action by the international community essential to tackling the most urgent global development challenges. Yet the actions needed to tackle these challenges often fall to states that can least afford to bear their costs. While they may in principle support efforts to resolve long-standing conflicts, prevent future crises, and contribute to global public goods, developing countries have strong incentives to prioritize scarce resources for their own development needs rather than those championed by external actors.

My contention is that inducing developing countries to undertake the actions needed to address conflict, crisis, and shared global challenges often requires external actors to leverage positive or punitive incentives that reduce the costs of taking these actions and increase the costs of inaction. In this dissertation, I will show how IFIs can apply these incentives in strategic interaction with recipient governments on the conditions of foreign aid. However, I will also seek to show how my argument and findings translate to other substantive domains of international intervention. It is important at the outset to underscore the scope conditions of my theory: I am interested in strategic scenarios where sovereigns neither strongly oppose nor strongly support the actions external actors seek to compel from them, which leaves out a wide range of international interventions where externals seek to impose behaviors that sovereigns starkly resist or where externals propose actions that sovereigns intrinsically embrace. But in the goldilocks scenario where proposed actions meet sovereign indifference, I argue that external actors can often provide a needed nudge that induces costly development actions in support of global goals.

a. International intervention

Because my argument seeks to engage a broader literature than the work on foreign aid that is its analytical focus, I take time in this section to explore existing research on international intervention. Doing so will help place my focus on aid within this larger theoretical and substantive context, laying a basis for extensions I will attempt to make from my analytical findings. The review below is inexhaustive but highlights key strands of thought on whether, when, and how international intervention does and does not work. I touch on soft forms of intervention like diplomacy, the work of IOs, and international law, as well as harder forms like military invasion, peacekeeping, and sanctions. I then segue to aid conditionality, which represents something of a mid-point between soft and hard approaches to intervention and serves as the analytical core of my theoretical argument in the chapters to come.

i. Origins and perspectives

International intervention is as old as the state itself. Indeed, it is much older. The Peloponnesian War, a touchstone of modern international relations theory, was fought between Athens and Sparta, the two most powerful city-states in ancient Greece, in the fourth century B.C., some two thousand years before the Treaty of Westphalia ushered in the modern state system at the end of the Thirty Years' War in 1648. Far from a pure Athenian-Spartan contest, the conflict in Peloponnese was riddled with external intervention. In the latter stages of the war, Sparta received financial and military support from the Achaemenid Empire as a means of balancing Athenian power (Bury & Meiggs, 1963). Sparta used this support in part to sponsor rebels in Athens, itself – an intervention within an intervention.

Despite its deep historical origins and centrality to inter-state relations, international intervention engenders controversy and impassioned debate in policy and scholarly debates. Critics attack intervention on both theoretical and empirical grounds. Theoretically, conceptions

of the nature and limits of sovereignty remain contested (Evans & Sahnoun, 2002; Getachew 2019; Jackson, 1992; Krasner, 1999; Lake, 2009). However, one thing that links most conceptions of sovereignty is the view that it furnishes states with the right to decide their own domestic and foreign policy. For some, this makes it inappropriate for one state to interfere in the affairs of another without the latter's invitation or ascent, but even this notion has been challenged by those who say that sovereignty vests states not only with rights but responsibilities, which, if unfulfilled, gives external actors both the right and responsibility to intervene to protect the state's citizens (UN Charter art. 2, para. 4; Evans & Sahnoun, 2002).

Empirically, critics argue that intervention tends toward bad outcomes, for both the targeted state and the intervenor. Commentators and scholars commonly cite the U.S. invasion of Iraq and Afghanistan, NATO's involvement in Libya, and Saudi and Iranian involvement in the war in Yemen, as contemporary examples of the folly-cum-dangers of foreign intervention (Cordesman, 2020; Darwich, 2020; Eland, 2015; Kuperman, 2013; Robinson, 2023). In the economic realm, scholars from very different policy orientations view International Monetary Fund (IMF) and World Bank structural adjustment programs and trade liberalization brokered by the World Trade Organization as having contributed to financial crises, reduced social spending, and increased poverty in developing countries (Easterly, 2006; Stiglitz, 2002). European Union (EU) efforts to induce and enforce political, economic, and judicial reforms in member or candidate states have in recent years engendered nationalist backlashes that have emboldened far right political populists (Kriesi, 2020; Treib, 2021). China's growing control over land, extractive resources, and strategic economic sectors in developing countries with weak capacity has fueled concerns that these states no longer truly control their internal and foreign affairs (Gelpern et al., 2022).

Others take a more positive or nuanced view of international intervention. Some view it as necessary to preserve global order by injecting hierarchy into an anarchic international system, prevent humanitarian atrocity, or help states advance the quality of life for their citizens, such as by strengthening the ability of judicial systems to fight corruption or improving health care (Lake, 2009; Matanock, n.d.; Power, 2002). While it is impossible to know the counter-factual, history offers strong evidence that international military interventions have, for their flaws, in some cases helped stop or mitigate atrocities. The U.S. decision to enter World War II proved decisive in allowing the Allies to end the Holocaust and defeat the Axis, and foreign-imposed regime change may have extended the duration of post-war peace in Germany, Japan, and elsewhere (Lo, Hashimoto, & Reiter, 2008). In the 1990s, NATO's bombing of Serb forces gave the United States leverage to broker the Dayton Accords to end the war in Bosnia (Greenberg & McGuinness, 2000).

The absence of international intervention has also been viewed as contributing to some of the worst episodes of modern history. Because states can use the banner of sovereignty to 'conceal abhorrent behavior', rigid adherence to a sovereignty-based principle of non-intervention can lead external actors to permit severe state predation (Lake, 2009, p. xiii). Some view the absence of military intervention as having enabled the Rwandan genocide, in which some

800,000 Tutsi and Hutu civilians were massacred in 100 days, the fastest pace of genocide in recorded history (Barnett, 2002, though see Kuperman, 2004 for a counter). Lack of military intervention is also seen as having enabled genocide in Cambodia, Iraq, and Kosovo, among others (Power, 2002). Turning a blind eye to such abuse may preserve Westphalian notions of sovereignty, but it has also led some to ask, 'sovereignty for whom', and 'for what', and inspired efforts to redefine conceptions of sovereignty and its implications for the right and responsibility of external actors to intervene (Evans & Sahnoun, 2002).

One thing that links opponents in debates on international intervention is the view that it matters. Whether friend or foe, there is broad agreement that intervention can alter the trajectory of states for good or ill. The import of intervention is evidenced by the issue's political salience in targeted countries, where it can rally publics out into the streets to protest external meddling, as in Argentina to oppose economic reforms demanded by the IMF, or galvanize beleaguered populations to demand foreign protection and support, as in Ukraine amid the ongoing Russian invasion. Because intervention has consequences not only for the target but for the intervenor, intervention can also inspire intense political debate in the intervening country, as it did during the intensive domestic protests that accompanied U.S. military interventions in Vietnam and Iraq. Publics often oppose devoting troops or treasure to shape events abroad, and when foreign adventures go awry, it can prove politically disastrous for incumbent leaders.

In a world where challenges are increasingly shared and solutions require contributions and sacrifice from multiple sovereign actors, the question of whether international intervention should be used to pursue cooperative behavior has taken on new relevance among policymakers and practitioners. This growing relevance is perhaps most evident on the issue of climate change. Wealthy countries and IOs such as the UN and World Bank have called on developing nations to join global efforts to cut carbon emissions and slow the pace of global warming, while many developing nations accuse the west of hypocrisy for discouraging the very carbon-intensive practices they used to industrialize and called for greater support to finance the transition to greener economies. On issues like resolving civil conflict and preventing crises, external appeals for countries to help meet global goals or prevent harmful spillovers are often seen as out of step with more urgent national priorities like building roads and subsidizing the cost of food. While peace, prevention, and global public goods have risen to the top of the global development agenda, they do not always align with the preferences of countries whose efforts are needed to achieve them, raising questions of how international actors can induce greater contributions to costly development actions, especially from developing nations with scarce financial resources.

ii. Types of international intervention: Soft, hard, and the missing middle

The import, intensity, and inconsistency of views on international intervention has inspired academic focus. Scholars from multiple disciplines have offered theoretical and empirical insights on the type and efficacy of mechanisms external actors use to induce action from

sovereign targets. Such mechanisms include efforts that can be characterized as 'soft' and 'hard'. Soft efforts might include bilateral and multilateral diplomacy and treaties, the work of IOs, and appeals to international law and conventions. Hard efforts might include military incursions, peacekeeping missions, and political and economic sanctions. The application of conditions to foreign aid falls somewhere in between, combining positive, 'carrot'-based elements of soft intervention with punitive, 'stick'-based elements of hard intervention. Soft and hard interventions are not mutually exclusive, and external actors often use them in tandem to induce desired reform.

Reviewing the literature on these varied forms of international intervention offers useful insights on which approaches work more and less well in inducing outcomes sought by intervenors and targets. This, in turn, offers empirical grounding to public and policy debates that sometimes remain anchored in ideological positions without an evidential basis. Surveying work on international intervention also brings to light theoretical and methodological limitations in the extant research itself. This helps highlight areas where additional work is needed and avenues for carrying it out. Below, I provide a high-level, non-exhaustive review of scholarship on different forms of international intervention to illustrate what scholars have taught us, what they may have missed, and the value of my dissertation's question and argument.

1. 'Soft' intervention: Diplomacy, IOs, and appeals to international Law

Soft international intervention refers to external efforts to induce changes within sovereign countries through non-violent, non-coercive means. This is a crude definition but helps to distinguish such efforts from intervention that seeks change by inflicting, or threatening to inflict, pain on target countries. Common forms of soft intervention include everyday diplomacy; the activities of IOs; treaties, conventions, and other appeals to international law; norm construction and diffusion; and transnational advocacy for certain policies and issues. While states engage in all such forms of intervention, non-state actors also use them to alter sovereign behavior. This is particularly true of nongovernmental organizations and activists who leverage global networks to advocate for change (Keck and Sikkink, 1998).

Different forms of soft intervention are not mutually exclusive, and may be used in tandem or sequence. Activists may push for a norm or policy to first be adopted as a UN resolution, then codified in bilateral or multilateral treaties, and finally inscribed in international law (Finnemore & Sikkink, 1998). Interplay between its different forms may add robustness to soft intervention by offering a host of fora and mechanisms in and through which to pressure states to adhere to certain forms of behavior. Unlike hard intervention, which relies on inflicting or threatening sufficient harm to convince target states to change course, soft intervention relies on multiple, reinforcing pressure points to increase the pressure. This linked-up approach is critical to the efficacy of softer forms of international intervention.

Scholars have found mixed evidence on the efficacy of soft interventions in inducing behavior change by targeted states. Non-coercive forms of norm diffusion like competition, emulation, and learning have been found to affect state behavior in areas as wide-ranging as democratization, election monitoring, economic liberalization, central bank independence, and even revolution (Elkins, Guzman, & Simmons, 2006; Hyde, 2011; Magee & Massoud, 2022; Polillo & Guillén, 2005; Simmons, Dobbin, & Garrett, 2006). Some find that states employ international law and related instruments such as treaties to solve specific substantive problems (Simmons, 2000, 2008; Simmons & Steinberg, 2007). International institutions allow states to coordinate behavior, credibly commit to cooperate, and influence sovereign targets by channeling resources or other forms of support (Axelrod & Keohane, 1985; Keohane, 1984). Non-state activists leverage global networks to influence officials abroad to pressure their own governments to adopt desired policies at home (Keck and Sikkink, 1998).

Other scholars have found soft intervention to be inefficacious. Some view international law and legal agreements to be epiphenomenal. In this reading, such instruments have no independent effect on state behavior. Instead, states sign onto and comply with legal principles and covenants that serve their interests. When interests and legal commitments conflict, the former beat the latter. Similarly, some view international organizations as mere instruments of the powerful states that control their decision-making, and as exerting no independent effect on the behavior of, at least powerful, member states. Diplomacy, for its part, may foster goodwill and identify areas where mutually beneficial collaboration is possible, but some prominent theorists assign influence on state behavior not to diplomatic intervention but to states' dispassionate calculation and pursuit of their interests (Mearsheimer, 2001; Waltz, 1979). In this view, the absence of coercive enforcement mechanisms means soft international interventions seldom affect the behavior of targeted states because they lack the force to induce commitments to reform or to impose penalties on countries that defect from commitments they have made.

2. 'Hard' intervention: Military incursion, peacekeeping, and sanctions

In theory, hard intervention resolves shortcomings of soft intervention through coercive enforcement mechanisms. If intervenors can credibly threaten coercive action, then targets have more incentives to commit to reforms desired by the intervenor and to fulfill those commitments once made. If they do not, the intervenor can inflict harm on the target as a penalty. In some cases, like military intervention, intervenors impose their will to bring about reforms by force, either by taking over the target state or leaving it with the existential choice of adopting desired reforms or facing regime change. Unlike soft intervention, where intervenors cannot or will not employ coercive measures, hard intervention may affect target state behavior by imposing costs for failure to comply with the intervenor's demands.

Yet, hard intervention also imposes costs on intervenors. Military invasion may engender opposition from countries, especially former colonies, that view it as violating the target's

sovereignty or even from allies who view such aggression as excessive. Economically, military incursions are expensive and detract resources from other priorities. Sending troops into combat is also a risky political decision that may incur audience costs from domestic constituencies who expect victory, costs that may prove especially steep for democratic leaders but from which authoritarian rulers are not immune (Brown & Marcum, 2011; Fearon, 1994; Schultz, 1998; Tomz, 2007; Weeks, 2008). Even the more limited step of imposing sanctions can engender domestic or diplomatic opprobrium by harming target country civilians.

It is also unclear whether hard intervention succeeds in coercing desired behavior from targeted states. Foreign-imposed regime change exemplifies the mixed findings on the efficacy of hard intervention. Some find that imposed regime change extends the duration of peace after wars, especially when democracies are installed (Lo, Hashimoto, & Reiter, 2008). Others, however, find little evidence that such military interventions achieve their political objectives or enhance security in war-torn states (Downes & Monten, 2013; Gleditsch, Christiansen, & Hegre, 2007; Pickering & Peceny, 2006). Still others argue international military intervention can actually worsen humanitarian atrocities, rather than prevent or stop them (Kuperman, 2008; Luttwak, 1999; Valentino, 2011).

International peacekeeping is another important form of hard international intervention. There is strong evidence that peacekeeping increases the duration of peace after civil war and can support other external goals, such as democratization. Much of this evidence emerged in the aftermath of the Cold War, as the deployment of UN 'blue helmets' became more common (Doyle & Sambanis, 2006, 2006; Fortna, 2004, 2008; Pickering & Peceny, 2006). However, more recent research has continually affirmed the role of peacekeeping in extending peace, reducing violence, and fostering social cohesion in war-torn states (Bove, Di Salvatore, & Elia, 2022; Di Salvatore & Ruggeri, 2017; Gizelis, Dorussen, & Petrova, 2016; Sandler, 2017; Walter, Howard, & Fortna, 2021). Despite these findings, there is also evidence that external intervention on the side of one belligerent extends the duration of civil wars, and that the increasingly internationalized nature of civil conflicts has complicated their resolution (Cunningham, 2010; United Nations & World Bank, 2018). On balance, then, military interventions, in addition to the costs of their imposition, have a mixed track record in securing intended outcomes.

The literature on political and economic sanctions also finds mixed evidence of the efficacy of this hard intervention tool. Because of the steep human, political, and economic costs of military intervention on both targets and senders, sanctions offer a perhaps less objectionable, easier to impose, and for that reason more commonly used form of punitive external pressure, and scholars have devoted much attention to their efficacy. Early work on the efficacy of sanctions focused on sanctions that were actually imposed, as opposed to those merely threatened, and found that these sanctions had only achieved sending country objectives in one-third of all cases (Hufbauer, Schott, & Elliott, 1990). However, looking only at sanctions that were actually imposed produces selection bias by removing from analysis cases where the mere threat of sanctions induced behavior change and leaving only countries that were intransigent to threats and likely more resistant to sanctions themselves. More recent analysis has

addressed this bias by including threatened sanctions and a larger number of imposed sanctions and finds sanctions to be more effective than earlier work (Morgan, Bapat, & Krustev, 2009).

Despite this correction, subsequent work on sanctions continues to find mixed evidence of their efficacy. Some find that target countries routinely blunt the pressure of sanctions by securing alternative sources of economic and political backing, rallying public support against these external penalties, and simply waiting for the actors imposing sanctions to change their policy (Early, 2015; Kleinberg, n.d.). Others find multilateral sanctions can be more effective than those imposed by a single country, but that enforcement of such sanctions represents a public good that requires contributions and non-defection by imposing countries (Early & Spice, 2015). This good can be difficult to produce because individual members of the sender coalition may have strong incentives to free-ride, such as desire to capitalize on potential advantages of maintaining political or economic relations with the target (Drezner, 2000; Martin, 1992). International institutions can help overcome these temptations by facilitating the flow of information and creating accountability among coalition members (Bapat and Morgan, 2009; Drezner, 2000; Keohane and Axelrod, 1985; Martin, 1992). However, the larger the institution, the more difficult it becomes to prevent defection from members and hence to enforce sanctions (Early & Spice, 2015). Like the literature on military intervention, then, the balance of existing research finds that the hard intervention tool of political and economic sanctions also has mixed efficacy in inducing behavior change from target states.

iii. What is missing: The middle ground

Despite their contributions, the review above shows that existing studies have provided mixed evidence on the ability of soft and hard international intervention to induce behavior change in target states. Part of the explanation for these varied findings is that research on international intervention has underappreciated key aspects of the strategic context that shapes interaction between external and sovereign actors. Two such aspects are particularly important. First, scholars pay inadequate attention to the alignment of these actors' preferences[1] when they make decisions on whether to cooperate. Second, existing work has not sufficiently explored the full range of incentives that external actors can utilize to induce reform, particularly incentives that deviate from these actors' standard practices.

I argue that preference alignment and the willingness of intervenors to offer 'exceptional' incentives bear importantly on whether countries agree to take actions that external actors desire. That is especially evident when donors apply conditions to foreign aid, a practice known as aid conditionality, which mixes the carrots of soft intervention with the sticks of harder approaches. When recipients and IFIs negotiate the substantive content of aid programs, preference alignment plays an important role in the willingness of recipients to adopt reforms on which IFIs condition aid. In some cases, recipient and IFI preferences are sufficiently aligned

[1] I use the terms 'preference' and 'priority' interchangeably across the document.

that IFIs can use exceptional financial tools of a positive and punitive nature to shift the incentives of recipients and induce them to undertake IFI conditions. The theory I develop in this dissertation aims to enrich scholarly understanding of, and policy approaches to, international intervention across a range of substantive domains, but I focus on strategic interaction between recipients and IFIs in the context of aid conditionality because it allows me to clearly illustrate and interrogate the pillars and pathways of my argument.

b. Aid conditionality: International intervention with carrots and sticks

Given the centrality of IFI aid conditionality to my theory and analysis, this section provides an overview of its logic and definition, origins and evolution, and efficacy in inducing reform. My argument focuses on efficacy. While the conditionality literature is extensive, existing studies reach different conclusions on the ability of conditions to induce donor-desired change in aid recipients. Fundamental questions remain about the circumstances under which recipients are more and less likely to comply with conditions, the causal pathways through which conditions impact recipient decision-making, and what, if anything, donors can do to affect the recipient decision-making process. These open questions serve as the starting point for my theoretical argument, which I previewed above and outline further below.

i. Logic and definition

IFIs have long sought to leverage conditionality to induce policy reform in aid recipients. In the aid context, conditionality refers to a process in which donors require recipients, typically sovereign governments, to undertake specific actions in order to receive financial assistance. Conditions take several forms. These include *ex ante*, or instrument-based, actions, such as the adoption of specific policies or passage of certain laws. They also include *ex post*, or outcome-based, conditions, such as reducing public debt or inflation to specific levels.

IFIs frequently place conditions on the aid they offer to member countries. Conditioned aid seeks to incentivize recipients to enact reforms IFIs believe will support economic growth, development, and other IFI-desired outcomes. The logic of conditionality is that recipients are often reluctant to enact IFI-promoted reforms – due to anticipated political costs, substantive disagreement, and/or diverging policy priorities – but want or need the aid they would get for doing so. By conditioning aid on reforms, IFIs seek to convince recipients they would be better off adopting reforms than refusing them and foregoing aid. Conditionality thus serves as a tool for IFIs to induce behavior change in recipient nations, as with other forms of international intervention.

But how effective is IFI conditionality? Does it actually induce recipients to take actions they otherwise would not? What affects compliance with IFI conditions, and under which circumstances are recipients more and less likely to comply? If conditionality does shape

recipient decisions on whether to enact IFI-desired reforms, how does it do so? These questions are crucial to the theory I aim to develop, and I devote the remainder of this chapter to exploring them by reviewing the origins and evolution of aid conditionality, existing scholarly work on its efficacy, and remaining gaps my argument seeks to address.

ii. Origins and evolution

IFI conditionality dates to the end of World War II, but the frequency of its use and the range of policies to which it is applied have evolved over time. The use of conditionality increased sharply during the emerging market debt crisis of the 1980s, when developing countries turned to IFIs to help finance debt burdens that had become increasingly unsustainable (Kahler, 1992; Polak, 1991). Early applications of conditionality focused on economic indicators that recipient governments broadly controlled, like monetary expansion, fiscal spending, and public credit (Babb, 2003). With the introduction of structural adjustment programs (SAPs) in the 1980s, however, IFIs like the World Bank and IMF began to use conditions to reach into increasingly intimate aspects of government policy, like the allocation of public spending and regulation of exchange rates, capital flows, and trade. SAPs also sought to reform the institutional foundations of recipients' economic frameworks, with conditions often requiring privatization of state-owned enterprises, public services, and pension systems, as well as political independence of central banks (Dreher and Vaubel, 2004; Williamson, 1990).

The substantive aims of conditionality began to shift after the East Asian Financial Crisis of the late 1990s. Some saw IFIs' rigid promotion of fiscal prudence, privatization, and trade and financial sector liberalization as having fueled vulnerabilities that led to the meltdown of the 'Asian Tigers' and other emerging economies (Stiglitz, 2002). While not all analysts shared this view, the crisis brought the limits of structural adjustment into sharp relief and led then-World Bank President James Wolfensohn to refine the SAP priorities of macroeconomic stability and market liberalization with more focus on social development goals like poverty reduction and good governance (Williamson, 2006; Wolfensohn, 2002). Criticisms from the crisis also prompted the World Bank to conduct a comprehensive review of the logic, aims, and performance of its approach to conditionality. This review yielded a set of principles to guide Bank conditionality going forward: country ownership, donor coordination, country customization, only requiring actions critical to results, and transparent review of recipient compliance (World Bank, 2005a).

While these shifts implied important changes in the World Bank's way of doing business, attaching conditions to aid remains a key strategic tool in efforts to induce policy reform from recipient nations. Even as the substantive objectives of World Bank and other IFIs have evolved, conditionality remains an ubiquitous feature of the IFI-recipient relationship and an important part of the strategic approach IFIs take to inducing reform. Today, nearly every World Bank and IMF program requires recipients to undertake pre-specified actions to receive finance, whether as 'prior actions' attached to budget support, performance-based benchmarks in 'programs-for-

results' (PforRs), or disbursement conditions for project finance.[2] Today, as in the past, it is difficult to assess the influence of IFI interventions without understanding the role of aid conditions.

iii. Efficacy

The evolution and endurance of conditionality as a central IFI policy tool has sparked debate among scholars, policymakers, business leaders, and activists over the efficacy of aid conditions in inducing policy reform in recipient nations, as well as their effect on economic, social, and political outcomes. While that debate has yielded rich contributions, important gaps remain in academic understanding of these issues. Much debate in the literature centers on the mechanisms through which conditionality succeeds or fails to induce reform. Whether their findings point to limitations or successes, existing studies have underspecified key factors that shape the outcomes of strategic interaction on aid program content and the financial tools IFIs bring into these negotiations. I discuss these shortcomings below to highlight the intended contributions of the theoretical argument I develop in chapter 3.

The extensive literature on aid conditionality has reached different conclusions on the ability of conditions to induce donor-desired reforms and the determinants of their efficacy. As an empirical matter, evidence on the efficacy of aid conditionality is mixed. A comprehensive early review found that recipients of World Bank aid comply with conditions in a large majority of cases (Koeberle, 2005). However, other work that has looked at the Bank and other institutions, such as the IMF, has reached less positive conclusions (Killick, 1996; Öhler, Nunnenkamp, & Dreher, 2012). Unless anchored in theory, however, observation of compliance rates reveals little about why recipients may or may not fulfill aid conditions.

Perhaps the most influential argument on what drives the adoption[3] and impact of conditionality centers on the quality of governance and ownership of reform in aid recipients. Seminal studies on the effect of aid on economic growth have found that aid is most efficacious in countries with strong fiscal, monetary, and trade policies (Burnside & Dollar, 2000). Authors find that compliance with policy conditions tends to be higher and aid programs more often achieve their substantive aims when countries are more democratic and politically stable, are less ethnically fractionalized, and have leaders who do not cling to office (Burnside & Dollar, 2000; Montinola, 2010). The efficacy of conditions also appears to increase when recipient governments are committed to the goals of conditioned reforms (Collier et al., 1997; Killick,

[2] Budget support goes directly into a recipient's budget, and it may use the funding for whatever it wishes, provided IFI conditions are met. PforRs provide multiple tranches of finance over the life of a program in exchange for recipients meeting pre-agreed benchmarks. Project finance is used to pay for specific services or construction. These programmatic types are discussed further below.

[3] Across the document, I use the term 'adoption' to refer to recipient agreement to, and their later compliance with, IFI conditions. When I am discussing agreement or compliance specifically, I try to make that explicit.

1996). When ownership is strong, recipients can use conditionality as a mechanism to increase the credibility of their commitment to adopt and sustain reforms (Dhonte, 1997). Ownership may matter even if leaders keep their support for reforms private and use conditions to scapegoat donors for, and thereby redirect public backlash against, unpopular policies (Vreeland, 2006).

In addition to good governance, scholars cite the strategic importance of recipients as a key determinant of the efficacy of aid conditions. Strategically important recipients often have access to multiple sources of finance, allowing them to buck conditions demanded by one donor and turn to others that are willing to provide aid with fewer strings attached. During the Cold War, recipients could threaten to shift their allegiance from the United States to the Soviet Union if conditions became too onerous, but the fall of the Soviet Union eliminated this alternative and increased the efficacy of conditioning aid on democratization (Dunning, 2004). Strategic importance continues to play a role in the post-Cold War period, however, with countries that have natural resources coveted by donors or are willing to support donors' strategic aims, such as fighting terrorism, better able to access non-conditioned aid or resist compliance with conditions (Girod, 2012, 2015). The emergence of China and other rising powers as key donors has offered additional outlets to less-conditioned aid and given recipients further strategic leverage to shirk policy reforms required by IFI programs (Watkins, 2022).

Another dimension of the strategic importance argument centers on donor interests. Similar to donor interest theories of IO behavior more broadly, one thread of the conditionality literature finds that powerful donor countries – such as the United States, Germany, France, the United Kingdom, and Japan – often use their influence over IFI board decisions to improve treatment of their allies (Abbott & Snidal, 1998). Better treatment takes the form of more, or financially larger, aid programs (Andersen, Hansen, & Markussen, 2006; Dreher, Sturm, & Vreeland, 2009a, 2009b; Kilby, 2006; Thacker, 1999). It may also include demanding fewer conditions of allies or continuing to provide aid to allied recipients even if they do not comply with conditions (Clark & Dolan, 2021; Dollar & Svensson, 1998; Dreher & Jensen, 2007; Dreher, Sturm, & Vreeland, 2009b; Kanbur, 2000; Kilby, 2009; Stone, 2004, 2008, 2011). Other scholars have focused on the micro-foundations of donor interests and found that private financial institutions in major donor countries shape their governments' contributions to IFIs and, by extension, IFI funding levels and lending policies (Broz and Hawes, 2006).

In addition to donor interest theory, some authors ascribe the efficacy of conditionality to the bureaucratic characteristics of IFIs themselves. This approach aligns with theories that consider IOs independent actors capable of advancing agendas and interests beyond those of their powerful sovereign members (Barnett & Finnemore, 1999, 2004). One argument is that IFI staff have incentives to continue lending to countries regardless of their compliance with programmatic conditions to advance their careers in institutions where lending volumes drive the business model (Martens et al., 2002; Mosley, 1987). Another argument is that IFIs fail to enforce conditions so that recipients can repay prior IFI loans with new funds and thereby avoid default, a process known as defensive lending (Dollar & Svensson, 1998; Ramcharan, 2003). Still

another argument is that IFIs may continue to lend despite recipients' failure to comply with conditions because they believe doing so is needed to promote their institutional objective of reducing poverty (Lumsdaine, 1993; Svensson, 2000).

Perhaps one of the unifying strands of these different approaches to the determinants of compliance with aid conditions is the – implicit or explicit – assumption that incentives matter. This includes the incentives of recipients to adopt the conditions in their aid programs, as well as the incentives of IFIs and other donors to enforce them. Similar to the good governance literature in the early 2000s, more recent reviews of conditionality have urged donors to lend more to countries with strong apparent incentives to comply with conditions and make aid 'work', or to focus on shifting the incentive structures of those that lack such incentives (Girod, 2018). Other work centers on the incentives of aid bureaucracies – whether IFIs and bilateral donors at the macro-institutional level or the managers and staff who make up these bureaucracies at the micro-personal level – to enforce the conditions they set (Barnett & Finnemore, 1999, 2004; Martens et al., 2002). What still has not been adequately covered, however, is which factors leave aid agencies like IFIs more inclined to enforce conditions and which tools IFIs can use to shift recipient incentive structures so that recipients become more likely to agree to, and ultimately comply with, the policy conditions that IFIs seek.

iv. Remaining gaps

Despite the focus it has received, the review above shows that important aspects of aid conditionality demand further research. At a basic level, and as just highlighted, too little is known about the circumstances under which recipients are most likely to adopt aid program conditions and under which IFIs and other donors are likely to enforce them. Within these gaps, there remains limited understanding of how recipients and donors discern the relative costs and benefits of different types of substantive conditions, as well as what, if anything, donors can do to alter recipient incentive structures to increase the likelihood of compliance and when donors are most likely to use the tools at their disposal to do so. These gaps matter: Without knowing how recipients and donors perceive the costs and benefits of different types of conditions, it is difficult to know how closely a given set of conditions aligns with their respective preferences and, by extension, whether donors can, and are likely to, use available tools to close any preference misalignment that may exist. I probe these and other gaps in fuller detail below to lay the basis for the theoretical argument that I build in chapter 3.

In the context of IFI-recipient interaction, I argue that preference alignment plays an important role in the efficacy of conditionality. However, the way in which scholars operationalize aid conditions in their analysis makes it difficult to identify the effect of preference alignment on compliance with conditions. When analyzing the effect of different factors on compliance with conditions, scholars have struggled to operationalize a measure of 'stringency'. The stringency of aid conditions can be conceptualized as the extent to which the conditions IFIs propose deviate from what a recipient wants to do, similar to the 'depth of cooperation' concept in

other multilateral agreements or what some aid scholars have called 'intrusiveness' (Clark & Dolan, 2021; Downs, Rocke, & Barsoom, 1996; Dreher & Jensen, 2007, p. 110).

To address the challenge of operationalizing stringency, scholars tend to take one of two approaches. The first is to abstract from variation in the stringency of individual conditions and assume that all conditions conflict to a similar degree with recipient priorities or that differences in the degree to which they conflict are not large enough, or are too difficult to measure, to warrant controlling for in statistical analysis (Dreher & Jensen, 2007; Oatley & Yackee, 2004).[4] However, fully abstracting from stringency is problematic because IFI and recipient priorities do not always conflict, and certainly do not always conflict to the same degree. Some conditions align more with recipient priorities – and engender less opposition – than others. Assuming recipients similarly oppose all conditions limits the ability to understand when and how conditionality successfully induces reform, as recipients should be less opposed to, and more likely to adopt, conditions that more closely align with their own priorities.

A second, related approach scholars take to operationalizing stringency is to measure it as a simple count of the *number* of conditions in a given aid program (Clark & Dolan, 2021; Copelovitch & Powers, 2021; Dreher & Jensen, 2007; Dreher, Sturm, & Vreeland, 2009). This approach is also problematic because it ignores the substance of conditions, which are likely to be more important in determining recipient compliance than their number. A loan with many 'easy' conditions – like issuing reports, establishing task forces, or developing sectoral master plans – would be less stringent, and more likely to be adopted, than one with a single but politically difficult condition – like reducing fuel and food subsidies. Stone (2008) provides a substantive typology of conditions across five domains,[5] and argues that the more types of conditions IMF programs contain, the more intrusive, or stringent, they are. In more recent work, Clark and Dolan (2021) apply Stone's approach to World Bank programs, using the 'number of categories that [conditions] span for a given project' as a measure of stringency, along with a count of the number of conditions (p. 41). However, this approach exhibits the same shortcoming as using the number of conditions to measure stringency: Having a broader range of condition types says little about how difficult or politically costly those conditions will be for the recipient to adopt, and Stone provides little guidance on how to assess this. Clark and Dolan (2021) concede the point in a footnote, observing that '[o]f course, a multisectoral loan is not necessarily more demanding than a single-sector loan, as a World Bank official pointed out (Interview C)' (p. 41).

Clark and Dolan (2021) also use text analysis to produce word clouds of words more commonly used in the conditions of U.S. allies versus those of U.S. foes. They observe that '[c]onditions for [U.S.] friends emphasize *published*, *evidenced*, and *management*, suggesting a softer emphasis on process and planning', whereas conditions for non-allies 'center around *law*, *budget*, and *government*', which, the authors state, 'suggests a stricter attention to policy and reform'

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[4] IMF (2002), Dreher and Vaubel (2004), and Dreher and Jensen (2007) are efforts to take a nuanced approach to measuring types of aid conditions that themselves illustrate the difficulties analysts have had in doing so.

[5] These include monetary policy, fiscal policy, debt service, exchange rates, and structural reforms.

(2021, pp. 44-45). Based on their text analysis, the authors conclude that '[U.S.] friends receive conditions with softer text than do foes' (2021, p. 45). This is a striking logical leap: Clark and Dolan do not offer an explanation of why recipients would view the highly generic words they cite as connoting hard conditionality – law, budget, government – as more stringent and costly to implement than the words they interpret as soft conditionality – published, evidenced, and management. Without further theoretical explanation or closer examination of its findings, Clark and Dolan's text analysis does not offer a new, more robust approach to measuring the stringency of conditionality in World Bank aid programs than those offered by the count and category approaches, which, as argued above, feature important shortcomings.

The absence of a credible approach to identifying the stringency of conditions can make it difficult to assess the alignment of IFI and recipient preferences in relation to a given aid program. This can bias statistical findings on the efficacy of conditionality. If a program features a large number of conditions, or types of conditions, that strongly align with recipient preferences, analysis may wrongly 'credit' conditionality with inducing a recipient to reform, when in reality the recipient already had strong preferences to adopt the reforms on which aid was conditioned. Conversely, when conditions strongly misalign with recipient preferences, analysis may wrongly 'penalize' conditionality with failing to induce behavior change, even if the recipient's staunch opposition made compliance unviable from the outset. My dissertation aims to fill this gap in the literature by giving greater prominence to the role of preference alignment in shaping recipient compliance with aid conditions, a dynamic that I will argue can also shape the efficacy of international intervention in certain other substantive domains.

In addition to preference alignment, a second oversight that has hindered existing scholarship on aid conditionality is its lack of attention to the full range of financial measures that donors – especially IFIs – can use to shift recipient incentive structures and induce desired reform. In certain strategic settings, I argue IFIs can leverage deviations from their normal modes of providing finance – a practice I conceptualize as 'exceptional finance' – to apply positive and punitive pressure that creates incentive structures in which recipients would benefit at least as much from taking the IFI's preferred actions as from taking their own. One such setting involves conditions that entail 'costly development action' like promoting peace, crisis prevention, and global public goods. These actions reflect top IFI priorities and are objectives recipients broadly support, but they are costly for recipients to adopt since they detract scarce aid resources from activities recipients more strongly prefer. By closing this gap in preference alignment, exceptional finance can compel recipients to adopt IFI conditions they might otherwise resist. The concepts of exceptional finance and costly development action have not received attention in existing work on conditionality, but they are central to my theory, and I return to each in chapter 3.

d. Contribution

My dissertation addresses both of the oversights in the aid conditionality literature discussed above: preference alignment and exceptional financial tools. These gaps matter. Despite mixed

findings on its efficacy in promoting economic growth and social development, aid conditionality remains central to the IFI business model. Nearly every IFI-funded program requires recipients to take specific actions to receive finance. Failure to understand the circumstances under which conditions are most likely to achieve their intended effect risks obscuring opportunities to promote reforms that are crucial to addressing the world's most pressing challenges, from climate change, to conflict, to crises like pandemic, famine, and disaster-induced destruction of cities and coastal communities. Worse, failure to understand how conditionality shapes recipient decision-making could, as many have charged, worsen the very problems it seeks to address, such as by raising tensions in conflict-affected areas, cutting services vital to ending poverty, and stoking political instability that spills across borders.

The overarching strategic challenge I tackle is how IFIs and aid recipients can strike cooperative deals when they have different preferences. I explore the issue of preference misalignment in the context of foreign aid, but I will argue my theory also applies to other substantive settings in which international intervention commonly takes place, thereby widening my contribution. As previewed above, my main contention is that striking cooperative deals often requires intervenors to shift the incentive structures of targets such that the target would benefit as much from the intervenor's preferred action as from its own. Intervenors can shift target incentives by leveraging exceptional tools, especially financial tools, that deviate from standard operating procedures to apply positive and punitive pressure that leaves the target at worst indifferent between promoting its own and the intervenor's preferences.

By addressing oversights in extant literature on foreign aid, my dissertation contributes new insight on when and how international intervention can work in other settings. I show that, in some cases, targets just need a nudge. The interests of intervenors and the states they aim to influence are not always at loggerheads, as often portrayed in existing work, especially on conditionality. Sometimes, compelling a country to take action that an IO, a coalition, or another state wants it to take requires making the action a bit more desirable to the target than it already is, or by making not taking the action a bit more costly. The task of intervention, then, is not always to push through a wall of opposition; instead, it is often to stir targets from mild objection or disinterest and offer them an impetus to play ball.

This insight has important implications not only for scholars but for policymakers and practitioners. Addressing the most critical challenges of our era – tackling climate change, containing pandemics, resolving conflict, preventing disasters – requires sovereign contributions. Eliciting those contributions is not guaranteed, however, because it requires convincing states to forego state-specific needs to promote a global goal or to forego shorter-term priorities to achieve longer-term objectives. In addition to detracting from efforts that leaders deem higher substantive priorities for their countries, such sacrifices may also elicit backlash from influential domestic constituencies that threaten the political survival of government leaders. These dynamics can give states strong enough incentives to withhold contributions to the achievement of leading global goals, even goals they broadly share.

In the face of this, the international community needs to offer incentives that make deferring national preferences to promote collective benefits the most rewarding path a government can follow. As shown above, existing work has found inconsistent evidence of the ability of intervenors to produce these incentives. I argue that is in part because scholars have not conceptualized the full range of scenarios that structure strategic interaction between intervenors and the states whose behavior they seek to influence. My dissertation develops such a conceptualization by focusing on the alignment of IFI and aid recipient preferences. I use this framework to build a theoretical argument about when and how aid conditions, and other forms of international intervention, can achieve their aims.

One of the main advantages of my dissertation is that it draws on my experience as a staff member of the World Bank Group. This status has afforded me access to, and an intimate understanding of, the processes that underpin this and other IFIs' business models, institutional objectives, and strategic approaches to negotiating aid deals with recipient governments. The interviews conducted for the case studies mentioned below benefited from an IRB protocol that allowed me to ask specific questions of World Bank and recipient government officials on their experience with offering or demanding exceptional financial resources in exchange for costly development action. However, this dissertation also benefits from numerous informal discussions I have had and the extensive exposure, experience, and knowledge I have gained through my work at the World Bank, including on the issues and in the countries that form the basis of my theory and analysis. This background affords me strong contextual understanding of recipient and IFI strategic interaction, allowing me to ground my research in the realities of complex aid negotiation processes in a way that other scholars may struggle to do.

e. Structure of the Dissertation

My dissertation proceeds as follows. Chapter 2 provides crucial background information on IFIs, especially the World Bank. This includes the evolution of IFI mandates and priorities, the mechanics of how they provide aid, and why I believe they are well-positioned among other external actors to induce reform from member countries. This groundwork seeks to establish familiarity with terms, ideas, and processes that will be key to understanding my theory, analysis, and findings. It also helps show how conditionality can shed light on the efficacy of international intervention more broadly.

Chapter 3 presents my theoretical argument. I conceptualize IFI exceptional finance and costly development action and set out the circumstances in which I expect the former to be more likely to successfully induce the latter. The chapter also describes the strategic environment that shapes IFI-recipient interaction, the incentive structures that motivate aid recipients and IFIs in their strategic interaction, and the factors I expect to motivate their decisions in negotiations over aid. Because I argue that preferences play a key role in the extent to which recipients embrace or resist proposed IFI conditions, and the extent to which IFIs are likely to enforce them, I describe the properties that are likely to shape recipient and IFI preferences over aid program conditions. This allows me to identify a set of aid program types whose

conditions I expect recipients to be most likely to adopt, and to formulate testable hypotheses about these expectations.

Chapter 4 subjects the hypotheses formulated in chapter 3 to statistical analysis. I leverage a logit regression model to empirically test the hypotheses against a dataset of nearly 500 World Bank aid programs from 2010-2019. I code programs for measures of costly development action and exceptional finance, my dependent and independent variables, respectively, and for a series of control variables that the literature has found to impact recipient compliance with aid conditions. The results of my analysis show the correlation between exceptional finance and recipient compliance with IFI conditions, broadly, and with conditions associated with costly development action, more specifically. This analysis offers an initial empirical test of – and initial support for – my theoretical argument.

Building on the model-based analysis in chapter 4, my fifth chapter uses a design-based approach to infer whether IFI exceptional finance has a causal impact on aid recipient decisions to take costly development action. To do so, I leverage the arbitrary cutoff in income level that helps to determine the type of finance to which World Bank aid recipients have access. Recipients on one 'side' of the income cutoff have a significantly higher probability of gaining access to World Bank exceptional finance for costly development action than those on the other side of the line, even as these countries are similar on covariates that existing literature finds affect recipient compliance with aid conditions. This presents an opportunity to leverage fuzzy regression discontinuity design (RDD) to infer whether the 'treatment' of access to exceptional finance causally affects recipient decisions to take costly action. Only one other paper has used such a research design, but it does not focus on costly action or use the dataset of World Bank programs I have amassed (Adam & Tsarsitalidou, 2020). Further illustrating how World Bank financing practices can underpin RDD analysis that enables causal inference of development outcomes represents one of my dissertation's most important contributions.

In chapters 6 and 7, I use qualitative case studies to explore in greater depth the theoretical argument developed in chapter 3 and tested in chapters 4 and 5. The chapters explore countries that all faced decisions on whether to perform costly development action, all had access to IFI exceptional finance, but had different experiences and outcomes in terms of taking costly action. Chapter 6 explores the experience of Jordan, a paradigmatic case for my theoretical argument, where access to exceptional finance played a crucial role in increasing contributions to the global public good of supporting Syrian refugees. Chapter 7 turns to Colombia, where offers of exceptional finance also induced stepped-up support for refugees, in this case from Venezuela, but where other factors like history, domestic politics, and international orientation also played a key, necessary role. Chapter 7 also conducts a 'shadow' case study of Peru, a country with strong similarities to Colombia on access to exceptional finance and a host of other contextual variables but where historical, political, and foreign policy differences produced very different outcomes on support for Venezuelan refugees. In sum, the case studies provide compelling evidence in favor of my theoretical argument while also illustrating important limitations in its scope.

Chapter 8 closes the dissertation by drawing conclusions about my theoretical argument based on the analytical findings from chapters 4-7. I situate these conclusions against existing literature to highlight my study's primary academic contributions. As it was inspired by leading issues on the global development agenda, the concluding chapter then explores the policy implications of my work, including how they can help IFIs and aid recipients achieve more peace, less crisis, and vital global public goods. I also discuss the generality of my theory and findings, arguing that they apply to strategic interaction on international intervention in a broader range of substantive domains beyond foreign aid. To close, I discuss the limitations of my dissertation, outstanding questions, and pathways for future research.

2. IFIs Across Space and Time

This chapter provides detailed background on IFIs. It includes an overview of IFIs' origins and purpose, the evolution of their priorities across time, as well as the mechanics of how they provide aid. The section also describes why aid recipient countries often find IFIs preferable to other donors and sources of finance. As I will show, peace, prevention, and global public goods have emerged as top IFI priorities in recent years, and IFIs have established dedicated financing mechanisms to increase the incentives recipient countries have to pursue these objectives. The background in this section aims to establish familiarity with terms, ideas, and processes that will be key to understanding the theory I develop in the following chapter, as well as the analytical work I undertake in the remainder of the dissertation.

i. Origins and purpose

The World Bank and IMF were established as the world's leading global IFIs at a conference in July 1944 in Bretton Woods, New Hampshire. Led by the United States and United Kingdom, the conference brought together 44 allied countries to shape the post-World War II international financial architecture. The World Bank, then known as the International Bank for Reconstruction and Development (IBRD), was established, as its name suggests, to finance post-war reconstruction in Europe and promote economic development in poorer nations, primarily through investment in infrastructure such as roads, dams, and electricity grids, while the IMF was established to ensure the stability of exchange rates and address balance of payments deficits (Ghizoni, 2013; Ursu, 2022). The establishment of the World Bank and IMF at Bretton Woods paved the way for the subsequent creation of the Inter-American Development Bank in 1959, African Development Bank in 1964, and Asian Development Bank in 1966. The World Bank, IMF, and these regional multilateral development banks are often referred to as Bretton Woods institutions.

ii. Evolution in focus across time

Soon after its founding in 1944, the World Bank's focus gradually shifted from post-war reconstruction and infrastructure development to poverty reduction. This shift resulted in the 1960 establishment of the International Development Association (IDA). IDA was created to provide loans to low-income countries at interest rates that were lower, hence easier to repay, than the rates provided to middle-income members of IBRD (IDA, 2022a). Moreover, whereas IBRD focused on infrastructure investment to accelerate post-war reconstruction and economic development, IDA was founded explicitly to reduce poverty. Even as its early loans also centered on infrastructure, IDA's mandate invited thinking about how lending in other sectors could advance its poverty reduction goal (IDA, 2022a).

The World Bank's focus on poverty deepened during President Robert McNamara's tenure from 1968-1981. In 1973, McNamara delivered his 'Nairobi Speech' in which he argued that the Bank 'should strive to eradicate absolute poverty by the end of this century' (McNamara, 1973). This

target inspired a Rural Development Policy Paper in 1975 that called for the Bank to focus more of its projects on increasing the productivity of small-scale rural farmers, which McNamara saw as crucial to reducing poverty. The paper resulted in a sizable redirection of World Bank resources, with lending for 'poverty oriented agriculture' projects increasing from an average of $78 million from 1969-1973 to $4.2 billion from 1974-1978, rural development from $109 million to $5.3 billion, and agriculture and rural development as a share of total World Bank lending from 20 to 30 percent, including 39 percent in 1978 (Christoffersen, 1978). By the end of McNamara's tenure, poverty reduction had become central to the World Bank's mission.

1. SAPs

Even as the World Bank's focus on poverty reduction has endured across the decades, the way in which it has pursued this objective has evolved significantly. Starting in the late 1970s and early 1980s, the rise in interest rates in the United States stemming from Federal Reserve Chair Paul Volcker's efforts to tame inflation led to steep currency devaluations in emerging markets. This made their sovereign debt, which was primarily denominated in U.S. dollars, increasingly difficult to repay. In countries that used dollars to defend overvalued exchange rates, currency depreciation drained dollar reserves and made it difficult to import consumer goods and industrial inputs. Unsustainable debt burdens left emerging markets on the brink of default, and dwindling reserves sparked inflation, reduced consumer welfare, and curtailed business activity. In many countries, these dynamics triggered macroeconomic crises, surging inflation, mass unemployment, and significant cuts in social services.

Macroeconomic crises in emerging markets also increased poverty, leading the World Bank to increase its focus on using financial support to foster macroeconomic stability. Along with the IMF, the World Bank was convinced that inadequate macroeconomic policy frameworks – including overvalued exchange rates, protectionist trade policies, and excessive state involvement in the economy – had caused the emerging market meltdown of the early 1980s (Malesa & Silarszky, 2005, p. 127). As such, they sought to use their lending to induce countries to adopt reforms that would address these policy shortcomings. This led to the adoption of structural adjustment programs (SAPs) that conditioned aid on recipients fulfilling policy conditions designed to foster macroeconomic stability. The emergence of structural adjustment lending led to a significant increase in World Bank and IMF use of conditionality in the 1980s and early 1990s, with the average number of conditions per World Bank policy program rising from less than ten in 1980 to 45 in 1992 (Dreher, 2009, pp. 163-170; World Bank, 2005a, p. 9).

2. Good governance and social development

However, as discussed above, the East Asian Financial Crisis of the late 1990s demonstrated the limits of structural adjustment lending and saw the Bank increase its focus on social development. Critics blamed the World Bank and IMF for using conditional lending to force recipients to adopt macroeconomic stabilization and market liberalization policies that left them vulnerable to the very capital outflows that triggered the crisis. They also attacked

structural adjustment policies for increasing poverty by inducing cuts in fiscal spending that reduced social services and public sector employment (Kim, Irwin, & Gershman, 2000; Rodrik, 2006; Stiglitz, 2002, 2004). Even the World Bank itself issued something of a *mea culpa* in a 2005 report, in which it admitted that its focus on market liberalization had been excessive and that there was no single path to economic success (World Bank, 2005b). The UN Millennium Declaration observed that while globalization had delivered great gains, its benefits remained too unequally shared (UN General Assembly, 2000).

While macroeconomic stability and growth were still viewed as priorities, the World Bank acknowledged that poverty reduction required focus on a broader range of issues. At the forefront of these emerging issues was social development. In 2005, the Bank developed its first strategy for social development, defining the concept as 'transforming institutions to empower people' and foster 'greater inclusion, cohesion and accountability' (World Bank, 2005c, pp. vi, 1). The strategy pledged to adopt an 'integrated, multi-sectoral, upstream approach' to more systematically promote social development in country development strategies and World Bank operations and analysis (World Bank, 2005c, p. vi). While the Bank had focused on social development issues across its history, '[w]hat was new [in the strategy] was their combination within an all-encompassing approach and their enhanced operational significance as a major component of the Bank's development strategy' (Vetterlein, 2007, pp. 520-521).

The World Bank's growing focus on social development in the early 2000s reflected new thinking about its mission and the types of issues on which its projects would focus. Though poverty remained central to Bank objectives, there was increasing recognition that development entailed more than raising income above a given threshold. Reflecting on the impetus for the 2005 social development strategy, one analyst observed that, 'by the end of the 1990s, the Bank acknowledged that economic growth through increasing income is not the only poverty reduction strategy' and that 'development should include people and social norms, values, and institutions' as part of 'a holistic approach to development (Vetterlein, 2007, p. 518). Similarly, the World Bank World Development Report 2000/2001 (Malmberg Calvo et al., 2000) 'accepts the now established view of poverty as encompassing not only low income and consumption but also low achievement in education, health, nutrition, and other areas of human development' and 'expands this definition to include powerlessness, voicelessness, and vulnerability and fear' (p. v). From a focus on markets, fiscal prudence, and a shrunken state under structural adjustment, by the mid-2000s, the Bank adopted a broader conception of poverty reduction and development that emphasized health, education, and inter-group cohesion, as well as people's ability to shape public decisions and hold leaders accountable.

3. Conflict, crisis, and global public goods

Since shifting from structural adjustment around the turn of the century, the strategic focus of IFIs has continued to evolve, and in recent years the World Bank in particular has come to view three issues as key to achieving its overarching poverty reduction goal: peace promotion, crisis

prevention, and global public goods provision. The prioritization of peace is a clear outgrowth of the Bank's strategic turn to social development and its perspective that resolving conflict is key to fostering more cohesive societies, which it in turn sees as essential to fostering economic growth and poverty reduction. Growing focus on crisis prevention is borne of the profound social and economic dislocations wrought by recurrent disasters, including natural disasters like earthquakes, floods, and typhoons, as well as those stemming from human causes, such as food insecurity, fiscal shocks, and broader macroeconomic meltdowns. The elevation of global public goods provision as an IFI priority stems from recognition that addressing top global development challenges – from climate change, to pandemics, to refugee outbreaks – requires contributions from all nations, including developing countries that have the fewest resources, or incentives, to provide them. This section discusses these three issues and their emergence as top IFI priorities, providing background that is essential to the theoretical argument I build in the next chapter.

The emergence of peace as a top global development priority stems from the increasing correlation between conflict and poverty. While scholars continue to debate the direction of causality, the empirical link between conflict and poverty is iron-clad (Blattman & Miguel, 2010). A recent study estimates that, by 2030, nearly two-thirds of the extreme poor will live in conflict-affected nations (Corral et al., 2020). Other work does find a causal link between conflict and poverty, with the *World Development Report 2011: Conflict, Security, and Development* concluding that preventing and durably resolving conflict is essential to boosting economic development and reducing poverty, a finding reinforced in a major UN-World Bank study on *Pathways for Peace* (World Bank, 2011; United Nations & World Bank, 2018). Conflict came to the fore as a global development issue in the 2010s as poverty became concentrated in conflict settings.

Even as the causal link between conflict and poverty remains uncertain, IFIs and other development actors have concluded that ending poverty requires averting conflict, a conclusion that has taken on added importance with the formalization of ending poverty and reducing conflict as leading IFI and global development goals. In 2013, the World Bank adopted ending extreme poverty by 2030 as one of its two institutional goals, along with curbing income inequality. In 2015, the UN General Assembly ratified ending extreme poverty by 2030 as the first of the Sustainable Development Goals (SDGs) and establishing peace and significantly reducing violence as SDG 16. As former World Bank President Jim Yong Kim said in 2018, 'We have absolutely no chance to end poverty without addressing fragility, conflict, and violence', and '[t]he only way to solve this crisis is to urgently increase our work in the economic space between war and peace' (Kim, 2018). Reflecting this logic, in 2020, the Bank launched its first institutional strategy to address fragility, conflict, and violence (World Bank Group, 2020a).

The World Bank's growing focus on promoting peace has gone beyond strategy and rhetoric. In recent years, it has scaled-up financing for efforts to prevent or resolve conflict. The Bank increased funding commitments for countries affected by conflict and institutional fragility from \$7.7 billion during the 16th IDA donor replenishment (IDA16) period from fiscal years 2012-2014

to $10.2 billion during IDA17, which ran from 2015-2017. This figure grew further during IDA18 and IDA19, which also introduced the Risk-Mitigation Regime and Prevention and Resilience Allocation as dedicated facilities to earmark over $1 billion for programs designed explicitly to prevent conflict in at-risk countries. These new facilities were buttressed by the Turn Around Allocation, a facility initially introduced in IDA17 that by IDA20 offered up to $1.25 billion to incentivize reforms to consolidate peace and accelerate transitions out of institutional fragility in countries emerging from conflict and/or social and political crises. By 2020, peace promotion had become a well-resourced World Bank strategic priority (IDA, 2022b; p. 125).

Rising attention at the World Bank parallels a prioritization of peace by other IFIs and international actors. In 2008, the African Development Bank launched the Fragile States Facility (now the Transition Support Facility) to consolidate peace and address institutional fragility in affected countries, and has since mobilized some $2.8 billion for these objectives (African Development Bank Group, 2023a). In 2022, the IMF adopted its first institutional strategy for fragile and conflict-affected states, reflecting a profound evolution in the Fund's longtime focus on more traditional macroeconomic stability issues, like balance of payments, exchange rates, and fiscal and financial policy (IMF, 2022a). Beyond the IFIs, bilateral donors have also placed greater emphasis on addressing conflict and fragility, as seen in the U.S. Congress' passage of the 2019 Global Fragility Act and the 2020 release of the United States Strategy to Prevent Conflict and Promote Stability. These strategic and financial commitments show the increasing prioritization of peace promotion by IFIs and other global development leaders in recent years.

Crisis prevention has also emerged as a global development priority. Like peace promotion, the growing focus on this issue derives in part from the increasing threat that crises like natural disasters, infectious disease outbreaks, and famine pose to poverty-reduction and other hard-won development gains. This threat is readily apparent in the human and economic costs incurred from the Covid-19 pandemic and West Africa Ebola outbreak in 2014. It also appears in the thousands of lives lost and billions of dollars in damages from earthquakes, cyclones, and floods in developing countries with infrastructure ill-suited to mitigate the impact of such calamities (Munich RE, 2022). Shocks stemming from drought, floods, conflict, and inflation have spurred food insecurity crises that affect more than 900 million people, crises that political forces sometimes compound into famine (FAO et al., 2022; de Waal, 2018).

Evidencing their growing focus on the issue, IFIs and key donors have devoted an increasing amount of finance to crisis prevention in recent years. In 2007, under the 15th IDA replenishment, they committed $1.6 billion to establish the World Bank Crisis Response Window (CRW; IEG, 2019). The CRW was created to offer immediate liquidity to help countries address economic shocks. The scope of the CRW was expanded during IDA16 and IDA17 to include support for natural disasters and public health emergencies. Donor commitments to the CRW increased from $900 million under IDA16, to $1.8 billion under IDA17, to $2.5 billion under IDA18 and $3.3 billion in IDA20 (World Bank, 2022a). The financial and substantive expansion of the CRW reflects the global development community's growing focus on crisis management.

While the initial purpose of the CRW centered on preventing crises from escalating after they began, it has more recently sought to help countries prevent crises before they start. In the $2.5 billion provided for the CRW under IDA19, donors earmarked $500 million for the Early Response Financing facility (ERF). The ERF seeks to 'support early responses to slower-onset events, namely, disease outbreaks and food insecurity', which have 'the potential to escalate into major crises but are still in the early stages of progression' (IDA, 2021a). Rather than help countries pick up the pieces *ex post*, ERF funds seek to 'incentivize resilience-building' *ex ante* (IDA, 2021a). This evolution of the CRW represents an effort by the World Bank and its donors to create financial incentives for countries to invest in crisis prevention.

The World Bank's increasing focus on prevention is shown by statements from its institutional leaders. Former World Bank Chief Executive Officer (and current IMF Managing Director) Kristalina Georgieva put the shift clearly. In 2018, Georgieva stated that '[o]ur aim is to make prevention everyone's business' and that, while the Bank would 'of course continue to respond to serious crises', it would 'at the same time…strengthen [its] ability to mitigate multidimensional risks before they turn into full-blown crises' (Georgieva, 2018). Emphasizing the importance of crisis prevention to institutional interests, Georgieva went on to note that '[t]his is mission critical for the World Bank', adding that '[w]e must and we will do better for people living in the world's most perilous environments, and that starts with crisis prevention' (Georgieva, 2018). These statements make plain that, as with conflict resolution, crisis prevention has emerged as a key World Bank institutional priority.

Finally, IFIs and donors have in recent years placed greater emphasis on compelling aid recipients to increase contributions to the global public goods necessary to address shared international challenges. Global public goods offer benefits to all, or the vast majority of, the world's people, have inexhaustible supply, and have benefits that people cannot readily be denied. Among other dynamics, the advent of the global refugee crisis in the early 2010s, the incessant march of climate change, and the Covid-19 pandemic have all pushed global public goods to the top of the development agenda. These global public 'bads' threaten and damage all of humanity, meaning that addressing them offers the universal benefit of mitigating that risk and impact. Global public goods often require collective action to produce, and IFIs have recently come to see catalyzing this action as a core part of their multilateral missions.

The global public good of refugee support exemplifies IFIs' growing focus on cross-border issues and plays an important role in the argument I build and test in subsequent chapters. Refugee support is a global public good because when one country hosts and cares for refugees, it reduces the amount of such care that other countries must provide. As the number of displaced people has increased, reaching an all-time high in 2021, IFIs have urged member states to share the responsibility of supporting refugees (UNHCR, 2022a). In 2016, IFIs and donors launched the Global Concessional Financing Facility to offer middle-income countries lower-than-normal, concessional interest rates on IFI loans for programs that deliver socioeconomic benefits for refugees. In IDA18, the World Bank created the Refugee Sub-window to provide low-income countries with $2 billion in additional financing for refugee-supporting programs, a

commitment that grew to $2.2 billion and $2.4 billion under IDA19 and IDA20, respectively (IDA, 2021b; IDA, 2022c).

Other efforts show that the global public good of refugee support has become n global development priority. The 2016 Leaders' Summit, 2018 Global Compact for Refugees, and 2019 Global Refugee Forum called on country leaders to make it easier for refugees to integrate into host societies. Commitments included policy and legal reforms to enhance refugees' rights to move, work, and access national health and education systems; pledges to take in larger numbers of refugee resettlements; and financial contributions to ease the burden on low-income hosting nations (UNHCR, 2023a). Coupled with the IFI financial incentives noted above, these policy reforms illustrate that a global system of shared refugee support has emerged as an international priority. That this system produces inexhaustible benefits from which all nations gain and none can be readily excluded shows it has qualities of a global public good.

However, refugee support is not the only global public good that has taken on greater focus among IFIs and other development actors in recent years. Perhaps the clearest and most prominent examples are the global public goods of climate change mitigation and pandemic prevention. The threats of climate change and benefits of its mitigation affect all members of the international community, while the Paris Climate Accord of 2015 and hundreds of billions of dollars of investment in curbing carbon emissions demonstrate the importance countries and other actors now assign to this issue, even as many, especially developing countries, have emphasized that more urgent efforts are needed (Abnett, 2022; Barbanell, 2022). The outbreak of Ebola in West Africa in 2014 and the COVID-19 pandemic starting in 2020 have spurred collective efforts to strengthen safeguards against the spread of infectious disease (World Bank Group, 2022). Even more mundane issues – such as curbing international tax evasion, money laundering, and the financing of terrorist activities – have attracted new attention, particularly from western capitals, which have adopted stringent policies, conventions, and sanctions to deter and penalize actors who would engage in these activities and to thus promote the global public good of an international financial system that allows countries to collect enough taxes to meet their people's needs and prevents violent attacks that threaten all nations (FATF, 2023).

So instrumental have they become to global development priorities, IFIs are now reconceptualizing their missions to explicitly incorporate promotion of global public goods. Ahead of the IMF-World Bank Annual Meetings in October 2022, U.S. Secretary of the Treasury Janet Yellen called on IFIs to scale-up financing for cross-border efforts to address global public bads. As Yellen stated, 'I strongly believe that tackling these global challenges will bolster the banks' existing work on poverty alleviation', because, '[a]fter all, climate change, threats to global health, and fragility have a disproportionate impact on the poor' (Yellen, 2022). In response to Yellen's demands, which she reiterated in a more recent speech in February 2023, the World Bank has launched an 'evolution roadmap' process to identify changes to its financing and operational models, as well as its formal institutional mission, that would allow it to place greater focus on tackling climate change and promoting other global public goods (World Bank Group, 2023; Yellen, 2023). While Yellen's calls for reform served as an impetus for

these steps, they matched the Bank's own assessment of its institutional priorities, which it describes as tapping 'long-standing relationships with more than 180 member countries…to address challenges that are increasingly global', including 'critical issues like climate change, pandemics, and forced migration' (World Bank, 2023a).

iii. Mechanics

The section above explored the evolution of IFIs' strategic focuses across time, showing clear evidence that peace, prevention, and global public goods have emerged as key institutional priorities in recent years. However, in addition to understanding institutional priorities, it is important to understand how IFIs conduct their business. In this section, I therefore turn to the mechanics of IFI business models, with a focus on the World Bank, whose approach is broadly representative of other Bretton Woods IFIs. Here, I give an overview of how the World Bank and aid recipient governments decide which programs Bank resources will finance, as well as the allocation, terms, and disbursement of that finance. While this overview abstracts from detail, it offers background information that is core to the theoretical argument I develop in the next chapter and the analysis I use to test that argument in subsequent chapters.

1. Programming

World Bank and recipient government collaboration is typically based in country partnership frameworks (CPFs) that set out a multi-year, multi-sector strategy for the types of programs that Bank resources will be used to finance. CPFs are usually set for 3-5 years and identify 3-4 strategic themes that will guide the selection of individual programs. Such themes are meant to reflect the government's development priorities and to reflect sectors – such as health, infrastructure, or energy – that analysis performed by the Bank and others has found to be crucial to meeting the government's priorities. In some cases, CPFs also include 'cross-cutting' themes – such as women's empowerment or climate change resilience – on which each program financed during the period will seek to focus. In countries where instability makes planning over a 3-5-year timeline inviable, shorter, usually 1-2-year 'country engagement notes' are used in lieu of CPFs.

CPFs offer a roadmap for the types of programs that will be funded over the framework's lifetime, and how those programs will be sequenced, but the selection of individual projects occurs on a yearly basis. Over the course of a fiscal year,[6] the World Bank country director and staff working in CPF priority sectors engage in an ongoing dialogue with government officials about the specific projects the latter would like Bank resources to finance in the following fiscal year. Based on this, the sectoral staff put forward proposals for the projects they deem most important to meeting the government's priorities and that could be completed within a funding envelope set by World Bank procedures discussed below. The World Bank then agrees with the

[6] The World Bank fiscal year runs from July 1-June 30.

government on the next set of projects that will be funded with Bank resources. That project 'pipeline' serves as the Bank's work program for the coming year.

The World Bank finances programs through three modalities. The most common is investment projects. These projects procure goods and services and often make capital investment in physical structures. This might include constructing schools or roads, procuring medicine, or financing small-scale infrastructure like dykes and boreholes. Another modality is development policy financing, also known as policy-based lending or 'budget support'. In this approach, the Bank provides money to a government on the condition that it adopt specific policy reforms, as with the structural adjustment programs discussed above. Unlike investment projects, no goods or services are procured; instead, money goes directly into the government's budget, often helping it to close fiscal deficits or meet other funding gaps. In some cases, the Bank and recipient may undertake a programmatic 'series', where sequential programs are pursued with the conditions of each program supporting a common, overarching reform objective.

A third and more recent type of World Bank program is the so-called 'programs-for-results' (PforRs). Established in 2012, the PforR is a performance-based financing approach that disburses resources if and when a recipient meets pre-specified results benchmarks. This is similar to policy-based lending, where the Bank offers funding in exchange for specific reforms. However, unlike most policy-based programs, PforRs typically make multiple funding disbursements over the life of the same program as subsequent benchmarks are met, though, like policy lending, they can also support a programmatic series of distinct projects. Also unlike policy lending, PforRs can be used for any expenditures, including goods and services, that recipients deem necessary to achieve the results they define, so long as those expenditures comply with Bank fiduciary, environmental, and social requirements (World Bank, 2022b).

2. Financing

Having described the way in which World Bank programs are selected and the modalities through which it provides finance to recipient governments, this subsection discusses the attributes of Bank finance. Three attributes are considered: financing terms, funding allocations, and disbursement practices. The World Bank has two lending constituencies: IDA and IBRD. As noted above, IDA consists of the world's poorest countries, which receive either grants or concessional, zero-interest loans. IBRD members are middle-income countries, which receive World Bank loans on non-concessional terms, but for which Bank resources are still attractive because they are cheaper than the interest rates these countries could secure if they issued bonds in capital markets or borrowed from commercial banks. As discussed further in chapter 5, the main factor that determines IDA or IBRD membership is a per-capita income cutoff, along with indicators of creditworthiness, debt sustainability, and social development.

a. Allocation

The World Bank allocates resources to IBRD and IDA countries through different processes, which are linked to the way in which the World Bank finances itself. The World Bank finances itself primarily by borrowing money in international capital markets and then earning a spread between the low interest rates at which it borrows and the higher rates at which it lends to IBRD countries.[7] To ensure it can issue bonds in capital markets at affordable rates, the Bank needs to preserve a strong credit rating, and throughout its history the Bank has maintained the strongest possible, triple-A rating. To preserve its triple-AAA rating, the Bank must assure investors it will repay them in a timely fashion. Offering this assurance hinges on borrowing member countries repaying their World Bank loans on time.

To hedge against the risk of borrower defaults preventing it from repaying lenders, the World Bank sets single borrower limits that cap the outstanding lending the Bank can have with an IBRD country. The limit for individual countries is determined based on a combination of the country's population, economic size, and a series of economic, political, and social risk indicators. Countries deemed more creditworthy have higher borrower limits, and vice versa. As with all banks, capping financial exposure to any single borrower allows the World Bank to limit the risk that defaults by a single IBRD country will prevent it from servicing its own debt to private lenders. This allows the Bank to preserve a favorable credit rating, borrow at low interest rates, and comfortably fund its IBRD business model.

IDA allocations work differently. For the World Bank, IDA is by design a loss-making institution. As discussed above, IDA was established precisely to provide affordable resources to low-income countries that lacked the repayment capacity of their middle-income IBRD counterparts. However, to do this, the Bank has to lend at concessional interest rates that yield little or no return, or offer non-repayable grants. This means that the stock of IDA resources depletes over time, requiring the Bank to periodically approach donors for replenishments, which it typically does every three years. The Bank also uses a portion of the spread it earns on IBRD loans to fund the IDA business model.

Because repayment risk does not play as central a role as in the case of IBRD countries, World Bank allocations to IDA countries center primarily on a recipient's ability to use its resources well. The primary determinant of the allocation of Bank resources to IDA countries during each IDA replenishment cycle is a 'Performance-based Allocation' (PBA) system that is based primarily on the strength of the country's governance. The quality of governance is determined through the Country Policy and Institutional Assessment (CPIA), a diagnostic conducted annually by World Bank staff to assess a country's policies and institutions across the four sectors of economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions, each of which has a series of criteria within it. The assessment yields a score from 1 (lowest) to 6 (highest) for each cluster.[8] To determine a

[7] Some IDA countries also borrow a share of their World Bank resources on IBRD terms, as discussed further below.

[8] Other IFIs use the CPIA or similar processes to determine country aid allocations. This includes the African Development Bank Group (2023b), Asian Development Bank (2020), Inter-American Development Bank (2023), and Islamic Development Bank (2020, p. 68), among others.

country's IDA allocation, a 'Country Performance Rating' is generated based on a weighted average of the CPIA sectors plus an assessment of the performance of the country's World Bank project portfolio (IDA, 2021c). The country's population and per capita gross national income (GNI) are then factored in, with higher population positively affecting allocations and higher per capita GNI negatively affecting allocations (IDA, 2020, p. 115). The objective of the PBA system is to incentivize countries to improve their governance, an approach grounded in influential findings in the aid literature that aid contributes to better outcomes in countries with higher quality governance (Burnside & Dollar, 2000).

In addition to their PBA, some IDA countries have access to additional resources from dedicated IDA facilities designed to incentivize and channel resources toward priority objectives. Chronicled in the discussion above on IFI priorities, objectives promoted by these facilities include, *inter alia*, promoting peace through the Risk-Mitigation Regime and Prevention and Resilience Allocation; preventing crises through the CRW and ERF; and providing support to refugees and 'host' communities through the Refugee Sub-window and Window for Host Communities and Refugees (WHR). Special IDA facilities can account for a sizable portion of a country's overall IDA resources. In South Sudan, a country with a very low CPIA, hence Country Performance Rating, resources from the WHR, CRW and ERF, and another special facility, the Remaining Engaged during Conflict Allocation, provided some 55 percent of the World Bank resources the country received during the IDA19 period from fiscal years 2021-2022, with PBA providing only 45 percent.[9] IBRD countries lack access to these special financing facilities, which I argue plays an important role in their strategic interaction with the World Bank on aid conditions, an issue I analyze through a regression discontinuity design approach in chapter 5.

b. Terms

In addition to the different processes for allocating resources to IBRD and IDA countries, the World Bank assigns different financial terms to the aid it provides to its members. IBRD countries receive repayable loans on non-concessional terms. The price, or interest rate, of IBRD loans is determined by the cost of the Bank's own borrowing when it issues bonds, a specific interest rate set across IBRD borrowers, plus a maturity premium that rises with the length of the loan and the income level of the borrowing country.[10] The interest rate is recalculated every six months to account for the Bank's current borrowing costs. Countries are also charged a one-time 'front-end' fee when the loan is agreed, as well as a semi-annual 'commitment fee' on the undisbursed balance (World Bank, 2023b). The maturity limit on IBRD loans, inclusive of grace periods, when no repayments are made, is 35 years, and the average repayment period is 20 years (World Bank, 2023c).

[9] These figures derive from the author's personal work on these issues in South Sudan. Note that, due to the Bank's frontloading of resources to address the COVID-19 pandemic, the IDA19 replenishment period lasted only two fiscal years instead of the usual three, with IDA20 starting in fiscal 2023, a year ahead of schedule.

[10] Factors aside from income level also determine the maturity premium. For example, IBRD countries affected by fragility and conflict and small island states do not pay higher maturity premia, regardless of income level.

IDA countries receive grants or concessional loans.[11] Countries that the World Bank deems to be at high risk of 'debt distress' receive all of their financing as non-repayable grants, while countries that it deems at medium risk of distress receive 50 percent of their finance as grants and 50 percent as loans (IDA, 2021d). IDA loans have a 38-year maturity, including a six-year grace period, and highly concessional interest rates that are either zero or extremely low, and significantly lower than IBRD rates (IDA, 2021d; World Bank, 2023d). Some IDA countries receive different terms based on country characteristics. Small states, which are seen as facing higher development challenges and vulnerabilities, get longer, 40-year maturities, with a more extended grace period and lower interest rates than regular IDA loans during the first half of the loan maturity period. So-called 'blend' countries, which are eligible for both IDA and IBRD lending, receive loans with shorter, 30-year maturities, shorter grace periods, and higher interest rates than regular IDA loans. Whether grant or loan, all IDA financing features a minimum 0.75 percent service charge and a commitment charge that is reset annually (IDA, 2021d; World Bank, 2023d).

c. Disbursement

A third important aspect of IFI financing, beyond allocation and terms, concerns the way in which money is disbursed. There are, broadly speaking, three modes of disbursing funds, and they hew closely to the three modalities for financing World Bank programs discussed above. Most investment financing is disbursed on a periodic basis according to a regular schedule. Recipients typically need to fulfill certain conditions for the first tranche of funding to disburse. However, thereafter, money releases at pre-defined intervals, so long as no violations of the program's legal agreement occur, such as failure to make timely repayment on loans or paying the service charge.[12]

Policy-based lending and World Bank PforRs follow a different trajectory. In the case of policy lending, disbursement is often made all at once, with the recipient receiving the full balance of the loan or grant in a one-off payment, after it fulfills a set of so-called 'prior actions. In some cases, however, proceeds may be disbursed in multiple 'tranches' over the life of the program as additional policy conditions are fulfilled. Finally, PforRs make multiple, performance-linked disbursements if and when recipients meet pre-specified results benchmarks. Financing terms typically remain constant across disbursement modalities and derive from a recipient's membership and status within IBRD or IDA, as discussed above.

iv. IFI appeal and influence

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[11] Occasionally, IDA establishes special facilities to provide additional resources on non-concessional terms. One such example was the Scale-Up Facility under IDA19, which offered loans on IBRD terms to IDA countries at low or medium risk of debt distress for projects the Bank deems capable of having 'transformational' impact (IDA, 2021e).

[12] Disbursement may also be suspended if, for example, the recipient fails to make timely repayment or pay service charges on *other* programs in the country portfolio, an example of intra-portfolio linkage that I return to in the discussion on 'cross-portfolio conditionality' in the following chapter.

My argument is premised on the idea that IFIs can more effectively induce policy reforms from aid recipients than other external actors, which is why I focus my theory and analysis on IFIs. What this means, however, is that, in addition to charting their evolution across space and time, as I have above, I need to make the case for why IFIs warrant theoretical and analytical focus. Specifically, I must identify factors that leave IFIs better-positioned to induce policy reform from aid recipients than other external actors like bilateral donor countries and private lenders. I argue that IFIs – especially global IFIs like the World Bank and IMF – are better-placed than other actors to induce reform for three reasons: the affordability, volume, importance, and predictability of their aid; their longstanding, global recipient relationships; and their multi-sectoral programmatic portfolios. I discuss each of these factors below.

1. IFI finance: Cheap, plentiful, critical, and predictable

IFIs provide finance that is, on balance, cheaper, more plentiful, more significant, and more predictable than what developing countries can secure from other donors or private lenders. First, on affordability, the competitiveness of their financial terms is one of the major aspects of IFIs' appeal to member states. IBRD loans are non-concessional, but their interest rates are typically far below what recipient countries would receive if they issued bonds in capital markets or sought loans from commercial lenders, like a private bank, while the grants and concessional loans offered to IDA countries are more affordable still. While certain donors or investors may be willing to provide finance on more favorable terms than IFIs in specific instances, they typically do not offer the volume of finance that IFIs do at affordable rates across time. Developing countries may thus turn to other sources on occasion, but the combination of cheap, plentiful finance tends to make IFIs a more appealing option to meet financial needs.

Due to the relative affordability and high volume of their financial support, IFIs often represent the largest source of aid recipients' financing, period. In low-income countries, IFI aid sometimes comprises a majority of public revenue and is needed to allow governments to maintain public payrolls, offer basic services, repay debt, and remain fiscally and financially solvent. Even middle-income countries with greater access to domestic resources and external non-IFI finance routinely rely on IFIs as a stable, affordable source of funding and a pillar of fiscal planning. In 2018, the World Bank made nearly $67 billion in financial commitments to low- and middle-income countries, some $5 billion more than the $59 billion provided by the United States, the world's largest source of bilateral aid, and equivalent to 42 percent of the $153 billion provided by the Organization for Economic Cooperation and Development's Development Assistance Committee (OECD), a group of the world's wealthiest donor countries (OECD, n.d.; World Bank, 2018). While China and other rising powers have emerged as important sources of aid, Bretton Woods IFIs remain the most important source of needed finance for most developing countries.

Another reason IFIs appeal to aid recipients is because their support is less vulnerable to political co-optation and changing strategic interests than that of donor governments (Custer et

al., 2015; Davies & Pickering, 2015; Girod, 2008; Martens et al., 2002; Milner, Nielson, & Findley, 2016; Rodrik, 1995). This means IFI support is more predictable and easier for recipients to plan around. IFIs may exact politically difficult conditions in exchange for their aid. However, once IFIs and recipients strike an agreement, the recipient can have confidence that, if it meets the conditions of the aid program, the IFI will deliver money in the amount and at the time it pledged to do so. In the volatile political and economic environments that characterize many developing countries, the predictability of IFI finance is a major asset.

Moreover, IFIs tend to base their aid commitments around multi-year partnership frameworks, as described above, which allows recipients to integrate IFI funding into annual budget and fiscal planning, and to know how much finance they will need to seek from other, non-IFI sources. Donor governments, by contrast, tend to make aid commitments on a yearly basis through processes that by design hinge on evolving political dynamics, such as the idiosyncratic demands of legislative appropriators and changing perceptions of the donor's strategic interests. When donor interests change and the aid recipient is no longer seen as vital to achieving them, or if relations between the donor and recipient worsen, donors can abruptly cut off aid. Almost without exception, IFIs cannot do so.[13] This makes it difficult for recipients to rely on bilateral aid for fiscal planning with the same reliability as with IFIs, and is another reason policymakers often value IFI support more than support from bilateral donors.

In addition to bilateral donors, private creditors sometimes serve as an important source of finance to developing countries, but their influence is also dwarfed by IFIs. Private creditors invest to earn profits. They have neither strategic nor normative reasons to provide aid. They invest to make financial returns. Recipients know that the tap of investor funding can turn off as quickly as it comes on if their perception of recipient creditworthiness worsens or if more attractive return opportunities present themselves in other markets. This has consistently occurred with the raising of U.S. and other advanced economy interest rates, as investors move their capital out of emerging markets into rich country bond markets. Recent episodes of these dynamics include the so-called 'taper tantrum' of 2014, when former Federal Reserve Chair Ben Bernanke pledged to begin to unwind some of the monetary stimulus that had been in place since the global financial crisis of 2008, as well as the more recent resumption of interest rate hikes in the United States, United Kingdom, and Europe on the back of the post-Covid spike in inflation (IMF, 2022b, ch. 1; Klemm, Meier, & Sosa, 2014).

The World Bank, IMF, and other IFIs provide aid based on an incentive structure that is almost opposite to that of private creditors. IFIs have a mandate to support – rather than pull back from – member countries amid crises and broader economic challenges to help them achieve

[13] On occasion, IFIs have reacted to policy shifts in developing countries not directly related to their lending programs by withholding or suspending aid. Examples include the postponement of a $90 million World Bank loan to Uganda in 2014 due to the country's passage of an anti-LGBT law and the Bank's more recent suspension of talks on a new CPF with Tunisia following its president's incendiary comments against migrants (Douglas-Gabriel, 2014; Hammoudi, 2023). These exceptional steps have engendered significant debate and themselves illustrate the rule that the Bank and other IFI typically do not link financial support to policy issues outside the country program.

their development and macroeconomic goals (Reinhart & Trebesch, 2016; Schlegl, M., Trebesch, C., & Wright, M.L., 2019). While creditworthiness does play a role in IFI engagement, especially in middle-income, IBRD countries, maximizing financial return on investment does not. Instead, IFIs exist precisely to fund countries with risk profiles that prevent them from securing affordable finance from commercial lenders. Because of this approach, aid recipients know an economic downturn or political volatility will not necessarily lead IFIs to suspend their finance, as it might with private creditors. Recipients thus have strong incentives to preserve relationships with IFIs, which increases IFI appeal to, and influence in, recipient countries.

2. Longstanding global relationships

A second factor that contributes to IFIs' appeal to, and influence in, recipient countries stems from their longstanding, global relationships. Founded near the end of World War II, the World Bank and IMF now have 189 sovereign members – nearly every country on Earth. While some are strictly contributing members, the vast majority are aid recipients, and most countries have lending relationships with the World Bank that are decades-old. In nearly all recipient members (and many contributing countries), the World Bank and IMF have an office and staff who engage regularly with senior government officials on sensitive policy issues. This is not true of most donor countries, even powerful ones. Most donors focus on a set of countries deemed important for strategic, normative, or other reasons.

IFIs' global relationships have important practical considerations for their influence in recipient nations. Whereas IFIs deploy sizable resources to nearly every developing nation as part of their normal business operations, most bilateral donors – for lack of resources, strategic interest, or both – do not have aid operations that are globally influential. This is not to say IFI influence is greater in every aid recipient than that of bilateral donors: Indeed, when donors view it as strongly in their interest to deploy aid or political or military support, they can, and often do, wield influence in developing nations that vastly exceeds that of IFIs (Manning & Malbrough, 2010; Stone, 2011; Girod, 2012). However, this influence is likely contingent on temporary donor interests. The influence that IFIs wield, by contrast, derives from their consistent mandates and the operational efforts through which they carry those mandates out.

3. Multi-sectoral Portfolios

IFIs also have country aid portfolios comprised of multiple programs across a range of sectoral themes. Because bilateral donors have less aid to offer, they often focus their assistance on one or two priority sectors. For IFIs, by contrast, it is common to have active projects in the same country for agriculture, education, energy, health, social protection, and transport. Even as a CPF may focus on a small number of priority themes, as discussed above, the operationalization of these frameworks usually involves individual projects across a wider range of sectors. The upshot is that aid recipients typically have some type of programmatic or analytical engagement with IFIs, particularly the World Bank, in every development sector, from energy, to health, to agriculture, to governance.

Multi-sectoral portfolios offer IFIs leverage in strategic interaction with recipient governments that other donors do not tend to enjoy. IFIs can theoretically link programs across the portfolio to pressure recipients to adopt reforms IFIs deem a priority. Even if recipients continue to benefit from existing programs in their portfolio, IFIs could condition their support for future programs that the recipient prioritizes on the recipient also agreeing to future programs more highly prioritized by the IFI. In a more extreme variant of this approach, IFIs could seek to insert clauses in project legal agreements that allow them to withhold continued disbursements for *existing* programs unless the recipient also agrees to adopt new programs with conditions that reflect IFI priorities. Such 'cross-portfolio conditionality' is an exceptional financial incentive available to IFIs that, while not currently used – at least not explicitly –, could in theory offer IFIs greater leverage to induce desired reforms from aid recipients than bilateral donors, whose aid programs tend to be concentrated in a smaller number of sectors and programs. I develop this and other building blocks of my theoretical argument in the following chapter.

3. Adoption of Aid Conditions: Theorizing the Role of Preferences and Financial Incentives

a. Introduction

In this chapter, I build a theory to help address remaining gaps in scholarly understanding of aid conditions. My argument seeks to shed new light on when, why, and how conditionality can induce reform in recipient nations. Fundamentally, I ask the following question: Under which circumstances are aid recipients more and less likely to adopt IFI conditions? In doing so, I assess which factors most significantly shape IFI and recipients' strategic calculus in interaction on aid conditions, including both recipient adoption and IFI enforcement. I also seek to identify the incentives that IFIs can use to make adoption of conditions more attractive to aid recipients, and when and why IFIs are most likely to make those incentives available. Failure to treat these strategic dynamics, I argue, has hindered prior efforts to explain when and how conditionality will induce reform.

In summary, my theory contends that recipients are most likely to adopt IFI conditions when they broadly share IFI preferences but value a program's conditions less than IFIs do. In these strategic settings, I argue that IFIs can use exceptional financial incentives of a positive and punitive nature to shift the level of benefits that recipients expect to receive from adopting IFI conditions versus reverting to their best available alternative. Such incentives do not change the preferences recipients hold. However, they can alter the payoffs of potential outcomes such that recipients expect to benefit at least as much from adopting IFI conditions as walking away from negotiations on a new aid program or failing to comply with conditions to which they agree. Distinguishing this 'goldilocks' strategic setting from those in which recipient and IFI preferences are further apart or in which they strongly align can help better anticipate the efficacy of conditionality than approaches scholars have previously employed.

Another contribution of my theory is that it identifies the types of aid programs that recipients and IFIs are likely to prefer. While scholars have struggled to do identify the types of aid program conditions that recipients and IFIs tend to resist or embrace, I argue that identifying recipient and IFI preferences over conditions is essential to anticipating when and how they are most likely to induce reforms (Dreher, 2002; Dreher & Jensen, 2007). To mitigate the challenges of identifying preferences, I take an indirect approach that first identifies the *properties* that shape recipient and IFI aid program preferences. This allows me to isolate the types of conditions that characterize programs where preferences are likely to be sufficiently aligned for recipients and IFIs to strike a deal, conditions I conceptualize as 'costly development action'. Based on this, I derive a set of program types for which IFIs can leverage incentives that I conceptualize as 'exceptional finance' to induce recipients to adopt IFIs' preferred conditions.

The remainder of the chapter is structured as follows. I first briefly situate my research within key outstanding questions in scholarly work on aid conditionality, building on the literature review in the introductory chapter. I then set out my theory of recipient adoption of aid

conditions. To do so, I discuss the centrality of preference alignment in shaping the strategic setting in which recipient and IFI interaction on conditions takes place and explore the properties that are likely to affect recipient and IFI preferences over specific aid program conditions. Next, I describe the exceptional finance measures that IFIs have at their disposal and how their use of these exceptional measures can shift the benefits that recipients expect to receive from an aid program and increase their incentives to adopt its conditions. To conclude, I identify the testable implications of my theoretical framework and the hypotheses I will subject to empirical scrutiny in the following chapters.

b. Lingering questions on aid conditions

Existing research has underappreciated key aspects of strategic interaction between IFIs and recipients that help explain variation in recipient adoption of – and specifically their compliance with – IFI conditions and the causal pathways through which conditionality operates. As discussed in the Introduction, disparate findings on compliance and causality result in part from insufficient attention to the alignment of IFI and recipient preferences over the use of aid. Most work assumes – explicitly or implicitly – that recipients are likely to resist IFI conditions to a similar degree, despite scholars often conceding that recipients (and IFIs) are likely to prefer some conditions over others (Collier et al., 1997; Dreher, 2002). Some work conceptually accepts that recipient opposition to conditions is likely to vary. Yet, even this work tends to abstract from that variation in empirical treatments due to the challenges of making it analytically tractable (Dreher & Jensen, 2007; Dreher & Vaubel, 2004b; IMF, 2002).

The theory I build in this chapter, by contrast, argues that variation in the alignment of recipient and IFI preferences is central to aid program outcomes. Preferences shape resistance to, or acceptance of, the conditions that IFIs and recipients propose, while the alignment of their preferences affects the ability of these actors to strike deals on aid program agreements. Once agreements are signed, alignment plays a key role in whether recipients comply with conditions to which they agree and whether IFIs enforce the conditions they set. At each step of their interaction, preferences shape the actors' strategic calculus.

Below, I describe the channels through which preferences affect adoption of aid conditions. I argue that preferences drive three key aspects of the strategic setting in which recipient and IFI interaction on conditionality takes place. First, they map onto the benefits each actor expects an aid program's conditions to yield. This 'mapping', in turn, helps illustrate the extent of (mis)alignment in each actor's expected benefits and whether IFIs can use exceptional financial incentives – namely, side payments or penalties – to bridge the gap. Third, focusing on preference alignment helps clarify when IFIs are likely to make exceptional incentives available, and when they are likely to hold them in reserve.

c. A theory of recipient adoption of IFI conditions

In this section, I build a theory of recipient compliance with IFI conditions. I start by discussing the role of preferences in shaping the benefits recipients and IFIs expect to receive from different aid programs. Expected benefits then create variation in recipient resistance to program conditions and the extent to which IFIs are likely to enforce them. I theorize that the alignment of recipient and IFI preferences, and the expected benefits that preferences help determine, shape the strategic setting in which negotiations over aid program conditions takes place. Preference alignment, in turn, plays a key role in shaping whether recipients adopt, or can be induced to adopt, IFI conditions.

While the extent of preference alignment is continuous, it is useful to imagine three stylized types of strategic settings that different levels of alignment give rise to. In some settings, I argue, preferences are simply too different to serve as the basis for a deal on a new aid program or the adoption of aid program conditions to which recipients initially agree. In others, preferences will so strongly align that recipients will readily agree and comply with the conditions IFIs propose, without IFIs having to deploy exceptional financial incentives to induce recipients to do so. In another type of strategic setting, preferences will be somewhat misaligned but close enough that IFIs can leverage exceptional financial incentives like side payments or penalties to shift recipients' expected benefits and induce them to adopt IFI conditions. My theory focuses on this third type of strategic setting, which I argue is characterized by aid program conditions that promote the top IFI priorities of peace, crisis prevention, and global public goods.

i. Preference alignment: The key factor in recipient adoption of aid conditions

1. Stringency

Preferences influence adoption of IFI conditions in part by shaping recipient perceptions of the stringency of those conditions and the political costs or benefits that compliance would entail. Scholars often assume recipients oppose all conditions that IFIs seek to impose. Collier et al. (1997) state that '[d]onor governments, disappointed by the lack of success of aid particularly in Africa, actual or perceived, have chosen to impose more (and more stringent) conditions' (p. 1399). The implication is that, in order to induce desired behavior change, donors have sought to increase pressure on recipients by making them comply with ever more painful conditions in exchange for aid. Conditions are presented as a mechanism that recipients inevitably wish to avoid or reduce but that IFIs want recipients to adopt.

But not all conditions are created equally, and there is little evidence that the stringency of donor-imposed reforms has increased monotonically since the onset of structural adjustment in the 1980s. Part of that lack of evidence is down to poor conceptualization of what stringency in the context of aid conditions actually *is* and how it can be measured and analyzed.

Conceptually, scholars rightly link stringency with the political costs these conditions would impose on a complying government and its ability to survive in office, under the reasonable assumption that survival represents political leaders' primary objective. But scholars have offered little structured thinking on the types of programs that are likely to exert the highest, or lowest, political costs. In a comprehensive treatment of compliance with World Bank and IMF conditions from the 1970s until 2000, Axel Dreher, a leading conditionality expert, says 'manipulations of prices have more frequently been implemented than conditions covering areas that are politically sensitive and require building of institutions' (2002, p. 29). But Dreher does not describe what those politically sensitive areas might be, why building institutions may prove more politically sensitive than adopting policy reforms, or even what building institutions actually means.

The lack of a conceptual framework for assessing the stringency of substantive aspects of aid conditions has led scholars to resort to coarser analytical methods. As noted in the Introduction, the most common approach to operationalizing stringency is to count the number of conditions a program has, with higher counts considered more stringent than lower ones (Copelovitch & Powers, 2021; Hernandez, 2017). This approach is highly problematic. It ignores substantive aspects of conditions that are likely to impact recipient adoption far more than their number. For example, a program with numerous conditions that pose no threat to influential groups – like setting up commissions to study certain issues – would be less stringent, and more likely to engender adoption, than a program with a single condition that jeopardizes a leader's political survival – like one that drastically reduces subsidies for food and fuel.

Substantive aspects of aid conditions thus offer a better gauge of stringency than their number, but, as noted, operationalizing substantive conceptualizations of stringency has proven difficult. Later in the chapter, I theorize the properties that are likely to influence the preferences that recipients and IFIs are likely to have over aid program conditions. Bracketing that discussion for now, I argue that the first step in developing a substantive conceptualization of the stringency of conditions is to think about how they align or misalign with recipient and IFI preferences, and the extent to which conditions deviate from what the recipient and IFI want to do. This approach mirrors the 'depth of cooperation' concept in work on multilateral agreements, which conceptualizes such depth as how much multilateral accords require signatories to depart from their own preferences (Downs et al., 1996). Similarly, the stringency of aid conditions can be seen as a function of the distance between what a recipient and IFI would *like* to do with aid and what conditions – regardless of their number – would *require* them to do. Conditions that require significant deviation from an actor's preferences should be considered more stringent than those that require less of a departure. Focusing on the alignment of conditions and preferences offers a useful approach to gauge how recipients are likely to view proposed IFI conditions, how likely IFIs are to enforce those conditions, and the benefits each actor can expect an aid program to provide.

2. Expected benefits, alternatives, and reservation points

Having mapped recipient and IFI preferences onto an aid program's conditions, one can analyze how strategic interaction between these actors on those conditions is likely to play out. Preferences shape the level of benefits recipients and IFIs expect a given aid program to provide. The difference in each actor's expected benefits reflects the extent to which their preferences align on that program. Thus, whereas preferences themselves shape the benefits recipients and IFIs expect aid programs to yield, the *alignment* of their preferences shapes the size of the gap between each actor's expected benefits. This gap has important implications for whether a deal on a program can be struck, whether recipients will comply with the program's conditions, and whether IFIs will enforce the conditions that they set.

Beyond the benefits an aid program would offer recipients and IFIs relative to *each other*, their strategic interaction also depends on how much benefit a program would yield relative to *available alternatives*. When recipients and IFIs enter negotiations on aid programs, each has a series of available alternatives that also offer a certain level of benefits. The benefits offered by each actor's best available alternative shapes the reservation point it brings into the negotiations. At its reservation point, the recipient and IFI would benefit as much from accepting the program as they would from walking away and reverting to their best available alternative. The better their available alternatives and the higher their reservation points, the more benefits recipients and IFIs will demand in order to agree to, and ultimately comply with and enforce, the conditions of a newly proposed aid program deal (Fisher & Ury, 1981).

Mapping preference alignment onto expected benefits and reservation points in specific aid programs gives rise to a theoretical framework from which testable implications about recipient adoption of IFI conditions can be derived. While preference alignment is continuous, my theory envisions three stylized types of alignment, each of which gives rise to a strategic setting in which recipients and IFIs are more and less likely to adopt and enforce conditions, respectively. When preferences strongly align, agreement and compliance are self-enforcing. In these situations, recipients and IFIs expect to receive similar benefits from the aid program and those benefits equal or exceed the expected benefits of available alternatives. IFIs thus do not need to induce recipient adoption of their proposed conditions.

When, by contrast, recipient and IFI preferences sharply misalign, one actor expects the proposed program to provide benefits that are significantly below its reservation point and the benefits expected by its strategic counterpart. In these settings, IFIs are unlikely to be able to induce recipients to adopt their preferred conditions. Doing so would require the IFI to leverage extensive exceptional financial incentives, like side payments and penalties, to make the deal more attractive to the recipient than its best available alternative. However, as I discuss below, IFIs incur costs when they use these exceptional tools, since doing so departs from their standard practices and thus weakens their institutional integrity. Creating enough incentives to secure the recipient's agreement would result in the proposed program no longer offering the

IFI more benefits than its own best available alternative, and as a result there is no deal in this setting that would leave both actors better off than their respective reservation points.

However, in a third strategic setting, where IFI and recipient preferences vis-à-vis a proposed program are broadly but imperfectly aligned, I argue recipient adoption of IFIs' preferred conditions can go either way and is contingent on IFIs' use of exceptional finance. In this 'goldilocks' scenario, the gap between the recipient's expected benefits from the program and its best available alternative is small enough that the IFI can use exceptional financial incentives to ensure the program would benefit the recipient more than its best available alternative. Crucially, however, and unlike cases where preferences are more disparate, compelling the recipient to adopt the IFI's preferred conditions would not demand such extensive exceptional incentives that the program no longer adequately benefits the IFI. In other words, the deal would still provide the IFI with benefits that exceed its reservation point, even after it applies the exceptional finance needed to secure the recipient's agreement. This ensures the IFI would do better from the deal than available alternatives, is motivated to enforce the deal's conditions, and can induce recipient adoption without incurring unacceptable costs to institutional integrity.

Table 1 below shows these three stylized strategic scenarios. When preference alignment is high, the recipient and IFI both have sufficient incentives to agree and successfully execute a new aid program and its conditions: Doing so will leave each actor better off than its best available alternative. When preferences are further apart, by contrast, successful deals are unlikely: Convincing a recipient to adopt its preferred conditions would require the IFI to make such a large side payment or impose such a large penalty that it would be better off walking away. When the gap between recipient and IFI preferences is more moderate, however, the IFI can use exceptional financial incentives to secure recipient compliance with its preferred conditions while ensuring that the deal remains more beneficial than the IFI's best available alternative. In the sub-section below, I argue this goldilocks scenario is most likely to emerge when program conditions promote peace, prevention, and global public goods, which reflect top IFI objectives that recipients broadly support but do not often prioritize for the use of scarce aid resources.

Table 1. Strategic Scenarios of Recipient-IFI Bargaining on Aid Program Conditions

Preference Alignment	Cooperation	Exceptional Finance
High	Yes	Unnecessary
Low	No	Insufficient
Moderate	Contingent	Necessary

ii. Identifying Preferences

Before considering how IFIs can induce recipient adoption of aid program conditions in strategic settings where it is possible to strike a deal, it is important to assess what shapes the benefits

that recipients and IFIs expect a particular program to provide. To do so, we need to identify their preferences. Preferences are the way an actor 'orders the possible outcomes of an interaction' (Frieden, 199, p. 42). Identifying the preferences of recipients and IFIs helps to understand how they are likely to assign benefits to and order, or rank, different potential aid programs. This, in turn, can help inform expectations about when recipients and IFIs are likely to agree to aid programs, when recipients are likely to comply with program conditions, and when IFIs are likely to enforce the conditions they set.

However, identifying the preferences of international actors is not easy. As Frieden (1999) notes, actors such as nation-states, like aid recipients, and international organizations, like IFIs, are comprised of numerous constituents with complex, often conflicting, interests . Aggregating these interests into a credible representation of a higher-level actor's preferences is hardly straightforward. Fortunately, approaches exist that can allow scholars to credibly identify, and productively analyze, what the preferences of higher-level international actors might be. Frieden offers three routes to doing so: assumption, observation, and theoretical derivation (1999, pp. 53-66).

Each approach to identifying the preferences of international actors has advantages and disadvantages. Assuming preferences, for example, is made easy by allowing the scholar to simply assert that an actor has a given preference, but is made difficult by the inability to directly observe what preferences actually are. Many international issues are so complex that it is not clear how a particular actor would want them to unfold, so there is likely to be disagreement among observers about what an actor's preference on that issue is. Despite this shortcoming, Frieden (1999) argues that 'valuable analyses can [nonetheless] be performed with assumed…preferences where we have some reason to believe that the assumption is realistic' (p. 57). He says these clearer scenarios 'might be the case of international public goods with few obvious distributional consequences, such as preventing global warming or controlling infectious diseases' (1999, p. 57). In other words, sometimes there are strong reasons to believe assumptions about an international actor's preferences are realistic.

Observation, for its part, involves inferring an actor's preferences from its behavior across space, time, and topics. This approach can give a sense of how actors tend to view and strategically approach different issues. Yet, it is nonetheless hindered by the fact that an actor's preferences do not always map onto its behavior or onto the outcomes of strategic interactions. This is particularly likely to be the case when actors have incentives, as they often do, to conceal or misrepresent their private interests, capabilities, and strategies, such as in negotiations on peace, trade, or combating climate change. In these instances, concluding that outcomes reflect preferences would bias analysis (Frieden, 1999, p. 59).

Theoretical derivation, finally, entails applying 'preexisting theory to identifiable characteristics of the actor and the environment in order to derive the anticipated preferences of different actors' (Frieden, 1999, p. 61). This approach is compelling in that it grounds anticipated preferences in existing theories and thereby provides a logical trail that others can follow and

buy into, which may be more difficult for the approaches of observation and even assumption. Yet derivation suffers from the limitation that extant theories do not cover all substantive domains or actors of interest. In such cases, identifying preferences may require theoretical extension, aggregation, or transposition that weakens the credibility of derived preferences. It may also require the larger task of building theory itself.

There is, thus, no one way of identifying the preferences of international actors. For the purposes of analysis, the key is to isolate which approach is likely to prove the most useful and credible analytical 'bet' for a given actor in a given strategic context (Lake & Powell, 1999). When it comes to aid recipients and IFIs, the challenges of preference identification are immense. Yet, doing so is necessary to analyze the extent to which they are likely to embrace or oppose, hence adopt and enforce, program conditions. Insufficient attention to preferences has left aid scholars resigned to coarser analytical methods, like counting the number of program conditions, which limits the ability of their theories to explain when and how conditionality can succeed. My theory helps address this shortcoming by devising a credible approach to identifying recipient and IFI preferences and leveraging this approach to formulate a new argument about when adoption of aid conditions is more and less likely. Below, I explore recipient preferences before turning to those of IFIs.

1. Recipient preferences: Costly development action as the goldilocks

To identify recipient preferences over aid programs, I draw on assumption, observation, and derivation. I expect a certain set of properties to drive recipient preferences and, by extension, the level of benefits they expect particular aid programs and associated conditions to provide. These properties include, first and foremost, the extent to which programs enhance or reduce the probability of political survival. I identify this preference by assumption and derivation, drawing on a bedrock assumption of theories across political science subfields – from international relations to American politics – that actors – be they politicians, governments, or states – seek above all to remain in office, or in existence, to enjoy the perks of their position, whether wealth, power, protection, or some other privilege (De Mesquita et al., 1999; Waltz, 1979). In-line with these theories, I assume recipient governments will embrace programs that enhance their ability to retain office and resist those that make survival less likely.[14]

By extension of their overriding desire to stay in office, I expect recipients to focus on properties of aid program conditions that directly affect their political survival. While many factors may shape a leader's prospects for survival, I argue three are particularly relevant in the

[14] Of course, some elected leaders are likely to be more focused on political survival than others. For example, a first-term president in the United States is likely to think more about survival than a reelected incumbent who must leave office at the end of her second term. Similarly, political leaders fresh off an electoral victory may consider the survival implications of their actions less than leaders who are set to face voters in the immediate future. While the implications of these considerations would be interesting to model and may highlight scope conditions for my theory, I abstract away from them here in the interest of analytical simplicity.

context of aid programs. The first is whether the program offers visible, salient, short-term benefits to a leader's selectorate or more subtle, uncertain benefits that only materialize over time and are difficult to claim credit for. I identify this preference by derivation from time-inconsistency theory in behavioral economics, which holds that actors often prefer benefits that materialize today over those that materialize tomorrow (Hoch & Lowenstein, 1991; Thaler & Shefrin, 1981). Recipients are likely to value programs that provide clear, short-term gains they can attribute to their own actions over programs with more nebulous outcomes.

I identify the second and third aid program factors that shape recipient political survival by observation and derivation. These two factors are similar. The second concerns whether an aid program benefits national citizens over foreigners, while the third centers on whether a program promotes collective national interests over global or otherwise external goals. These factors can be observed in political leaders' routine efforts to deny entry to immigrants on the basis of preserving jobs for nationals, or in their resistance to adopting clean forms of energy to stem climate change in favor of polluting industries that accelerate economic growth. They can also be derived from rational choice theory, which implies that because the fate of leaders – whether through elections in a democracy or the support of powerful selectors in an autocracy – usually rests with their compatriots, leaders will be more responsive to the interests of fellow nationals than those of foreign actors.[15]

When aid program conditions contribute to their political survival, recipients are more likely to embrace, agree, and comply with them than when they do not. However, the difference between contributing to political survival and hindering it is not discrete. Some programs have properties that exist in the middle. They do not support political survival as much as others, but nor do they actively work against it. Thus, despite their preferences for programs that maximize prospects for political survival, I theorize that a set of programs exist that do not feature all the properties outlined above – present benefits and privileging national interests over foreign guests and goals – but that recipients will nonetheless positively value. These programs, which I conceptualize as 'costly development action', are likely to fall into the middle range of recipient preferences and give rise to strategic settings where successful IFI-recipient negotiation on new aid programs is possible but contingent on the use of exceptional IFI inducements.

Three properties are likely to constitute programs in this middle range. First, recipients are likely to be open to aid programs that indirectly increase the availability of resources for higher priorities. Such programs do not directly contribute to efforts that a recipient considers vital to its political survival. But they may nonetheless reduce the resources it must expend on other obligations. These programs thereby increase the resources a recipient has available to devote to survival-promoting endeavors.

Second, I expect recipients to value aid programs that confer reputational benefits, both domestically and internationally. Such programs nurture perceptions that a leader is capable

[15] Clear exceptions to this are regimes propped up by foreign powers, such as proxy states during the Cold War or current leaders who owe their political – and personal – survival to foreign mercenaries like the Wagner Group.

and worthy of support. Skillful leaders can translate these perceptions into votes or increased international funding that can be used to finance priorities more central to their political prospects. Third, recipients may not prefer but may nonetheless be open to aid programs that contribute to external goals that also advance national interests. Even if they reject the idea of using scarce aid for efforts that focus solely on international objectives, this resistance is likely to be tempered if those programs and efforts also provide direct benefits to a recipient's own people. Each property of the costly development actions that characterize these programs in the middle zone of recipient preferences flows directly from the properties assumed, observed, and theoretically derived above that I expect to constitute a recipient's preferred programs.

This approach to identifying recipient preferences has the important advantage that it does not require assumptions about how recipients are likely to view the substantive merits of aid programs, but instead focuses on the implications of certain programs for their political survival. Recipient leaders undoubtedly have strong views on the substantive aspects of aid programs, and those views undoubtedly shape their approach to strategic interaction with IFIs on aid program conditions. However, identifying the views of different leaders on the substantive aspects of specific programs – let alone identifying patterns in those views across space and time – would require heroic assumptions. For example, while it may be possible to credibly surmise, based on deep qualitative analysis of the particular case, how a Ghanaian finance minister felt about the substantive appropriateness of a two percent reduction in the 2015 fiscal deficit, it would be foolhardy to assume that a Sri Lankan finance minister in 2011, or a Kyrgyz planning minister in 2018, would hold similar views. However, it *is* likely, and thus more reasonable to assume, that these three ministers – and most of their counterparts across regions and across the years – all value staying in office and therefore adopting policies and programs that contribute to that overriding objective.

My approach to identifying recipient preferences abstracts away from specific policies at the level of individual aid programs and instead looks at how the properties of certain types of programs map onto objectives that most recipients are likely to hold. I conservatively assume that recipients value political survival above other objectives, and then map the substantive properties of different aid programs onto that overarching aim, with those that contribute to political survival likely to be preferred over those that contribute less or not at all. This approach does not require assumptions about recipient views on nuanced aspects of, say, fiscal policy, social inclusion, or infrastructure. Instead, it makes safer analytical bets about programmatic properties that are likely to contribute more and less to political survival. These bets center, again conservatively, on the immediacy and salience of program benefits, the favoring of nationals over non-nationals, and the promotion of domestic over external goals.

But what about IFIs? Strategic interaction requires at least two actors. Understanding whether these actors are in a strategic setting in which a deal on proposed aid conditions is possible requires not only identifying the aid program preferences of recipients. It also requires an understanding of the types of programs that IFIs themselves are likely to prefer. That is the task of the subsection below.

2. IFI preferences: Costly development action as the preference

Identifying the preferences of IFIs is perhaps even more complex than identifying those of aid recipients. One way to see this is that, whereas recipient preferences reflect the aggregation of interests within a single state, IFIs are comprised of many – or, in the case of the World Bank and IMF, nearly all – states. On top of the domestic interests that shape the preferences of one country, assessing the interests of IFIs requires considering the interaction of interests across multitudes of them. With so many interests in play, it becomes difficult to anticipate what IFIs want or how they are likely to behave. Assumption, then, seems to offer little support for identifying IFI preferences.

Deriving IFI preferences from theory also seems fraught, as existing theories of international organizations (IOs) hold different views of what drives IO behavior. One prominent approach argues that IOs, including IFIs, are mere extensions, or instruments, of their most powerful sovereign members, whose interests they dutifully pursue (Abbott and Snidal, 1998). Another argues IOs are independent actors that leverage complex bureaucratic procedures and technical expertise on highly specific issues to shield themselves from sovereign interests and advance their own institutional agendas (Barnett and Finnemore, 2004). A third theory adopts a principal-agent framework, arguing that member state control of IOs is contingent on the space, capacity, and desire that IO agents have to deviate from the interests of their sovereign principals, with IOs that focus on technically complex issue areas often having more room to shirk than those working on areas that are easier for principals to understand and monitor (Hawkins et al., 2006). It is difficult to navigate the considerable differences among theories of IO behavior to derive a consistent set of IFI aid program preferences.

The remaining option for identifying IFI preferences, observation, offers a more promising path. The issues to which IFIs have elected to devote their resources and those to which they have given prominence in institutional policies and public statements offer some indication of what their preferences are and how they have evolved over time. This approach also helps to reconcile, or at least obviate, the divergences among existing IO theories. Regardless of what drives IO actions, simply observing those actions offers an indication of IFI preferences, irrespective of their origin. If an IFI promotes certain issues above others in practice, it may be that the IFI prefers those issues, whether because its most powerful member states want it to promote them, because the IFI as an independent actor has decided those issues are most important, or because preference for those issues is the outcome of interaction between IFI staff acting as agents for the interests of their sovereign principals.

It is also not clear why the major risk of using observation to identify preferences – which Frieden describes as confounding preferences with their effects (1999, pp. 59-61) – would prove particularly concerning in the case of IFIs. The risk Frieden sees is that actors may present a false front in strategic interaction with counterparts. An IFI may drive a hard bargain and demand extreme conditions from a recipient because it believes this strategy is most likely to result in a program that reflects its true, more moderate preferences. However, there is a great

deal more information available about IFIs than the stance they take in negotiations on individual aid programs. Also available are, *inter alia*, the content of thousands of aid programs over time; the outcomes of negotiations with donors on the allocation of resources for specific themes in IDA replenishments; policy goals to which IFIs have formally bound themselves; and public statements IFI leaders have made about their institutional priorities. It seems unlikely that, in each of these fora, IFIs would be coordinating to systematically misrepresent their underlying motives in service of a strategy of deception. Instead, the empirical record of aid program content, thematic focuses of IFI-donor discussions, and institutional policies and public statements offer a firm basis to observe 'revealed preferences' that reflect true IFI motives.

Moreover, despite the challenges of assumption and theoretical derivation cited above, the properties of programs preferred by recipients may nonetheless offer guidance on the programs preferred by IFIs. I argued above, based on assumption and theoretical derivation, that recipients, like other actors in the international system, will seek above all to retain office, or remain in existence. It is reasonable to assume that IFIs are the same, but it is also reasonable to assume that their means of survival are quite different from those of sovereign states and their political leaders. Whereas political leaders in theory have a responsibility to promote the interests of the electorates or selectorates within their nation, IFIs in theory have a broader mandate that requires them to advance issues and initiatives beneficial to all, or many, nations, rather than one or a narrow few. In some instances, powerful sovereign shareholders may push IFIs to advance the interests of a particular recipient (Stone, 2011). In others, IFIs may go out of their way to meet the demands of a large borrowing member that is particularly important to the IFI business model. But, in general, I assume IFIs try to prove their value – hence shore up their survival – by advancing the multilateral mandate and international benefits with which they are charged.

This discussion of IFI preferences implies the following. First, to understand the specific types of broadly beneficial aid programs that IFIs prefer, the best option is likely observing the empirical record. Second, the empirical record should show that IFIs prioritize programs that not only serve the narrow interests of individual aid recipients but that provide benefits to, and advance objectives shared by, the broader global community. Third, and crucially, the discussion implies that the programs IFIs are likely to prefer most share properties of the costly development action programs that sit in the middle range of recipient preferences, namely those that support recipient nationals and interests alongside foreign populations and external goals. This, in turn, means that interaction over these programs takes place in a strategic setting in which deals between recipients and IFIs on new aid programs should be possible, and where IFI exceptional finance can induce recipients to comply with conditions to which they agree.

iii. Costly development action: A framework for analysis

Identifying recipient and IFI preferences provides vital analytical leverage, as it allows me to subject to empirical testing my theoretical expectations about the adoption and enforcement

of aid conditions. Even as it does not assign preferences to specific aid programs directly, identifying properties that contribute more and less to political and institutional survival allows my theory to infer the extent to which specific programs are likely to align with recipient and IFI preferences. If a program can be mapped to recipient and IFI preferences, it can also be anticipated whether the program is in a strategic setting where recipients and IFIs are likely to be able to strike and execute a deal. This makes it possible to analyze whether recipients more frequently adopt and whether IFIs more frequently enforce program conditions in a given setting than others. Crucially, it also allows me to test my argument that recipients are more likely to adopt conditions when IFIs use exceptional finance to promote costly development action, and that IFIs are more likely to use exceptional finance for programs that advance these institutional priorities than for programs with conditions that advance other, less-prized objectives.

To pave the way for this empirical testing, I identify a non-exhaustive set of aid program types that are likely to exist in strategic settings where recipient adoption of IFI conditions should be possible. To do so, I leverage groundwork already laid in the introductory chapter, where I explored the evolution of IFI priorities across time. There, I identified programs that promote peace, crisis prevention, and global public goods as top IFI priorities, especially at the World Bank. Because I provided extensive evidence to support that claim in the prior chapter, my task now is to show that these program types not only reflect IFI priorities but also sit in the middle range of recipient preferences and thus give rise to a strategic setting conducive to successful aid program negotiations. In the discussion below, I show that peace promotion, crisis prevention, and global public goods provision all have properties that typify mid-range recipient preferences and can therefore serve as the basis for analysis of my theory about the use of IFI exceptional finance to induce recipient adoption of costly development action conditions.

1. Peace

Programs that promote peace – such as by financing activities that prevent or resolve civil conflict – are not likely to be at the top of recipient priority lists but may still offer benefits that leave recipients positively inclined toward pursuing them. Civil war is often an all-consuming affair that dominates the attention and focus of national political leaders, as in war-torn nations like Ukraine, Syria, Yemen, and Afghanistan before the Taliban takeover. But this is not always the case. Indeed, civil wars such as those in Colombia, the Philippines, Thailand, and parts of India sometimes grind on for decades as 'low-burn' affairs that, while disastrous for those living in their midst, pose no real threat to the government's control of the state. In these settings, life continues more or less as normal for most of the country's people who live far from the 'pockets' of conflict where war takes place.

When war does not pose a threat to state survival or directly affect the daily lives of most civilians, governments are wont to focus on forces that do. This is especially so because activities required to make peace tend to be costly. As Fearon (2004) observes, low-intensity conflicts 'involve relatively few combatants, pose relatively little threat to the center, and thus

stay fairly small', but '[t]hey are difficult to eliminate entirely, and because they tend to be so small, not worth the cost of doing so' (p. 289). In developing countries, this means leaders will often prefer to use scarce aid resources to respond to demands from civilians or other influential groups who live far from conflict zones, rather than for the investments needed to make peace, which may include increased spending in rebel areas, guaranteed jobs for ex-combatants, and so on. Moreover, the selectorate whose support governments depend on for political survival may view acquiescing to rebel demands for amnesty or political, military, economic, or territorial power-sharing arrangements as rewarding traitors for treason. Engaging in the lengthy negotiations and making the costly concessions required to secure and build peace detracts time and political and economic capital from responding to the demands of the selectorate. Faced with scarce resources, governments – even those broadly inclined to work for peace – may thus prefer to use IFI resources for development activities more squarely aligned with their political incentives.

Yet, peacemaking may nonetheless confer benefits that aid recipient leaders have reason to value. These benefits can take different forms. First, securing peace reduces the military expenditure leaders previously had to incur to defeat or contain rebels, freeing resources for higher priority investments. Second, leaders who decide to walk the hard road to peace may be viewed by international and certain domestic audiences as thoughtful, visionary leaders who are willing to place long-term, morally grounded progress for all of their compatriots ahead of immediate political concerns and the narrow interests of favored groups. These 'reputational benefits' can support the political survival of recipient leaders in two ways, both by attracting increased aid from bilateral partners who favor peace and increased investment from private sector actors who believe peace will enhance stability and their ability to secure economic returns. While the benefits of peacemaking may not feed as directly into a recipient leader's political survival as other aid program objectives, peacemaking may nonetheless offer sufficient benefits to underpin a deal between recipients and IFIs on peace-promoting conditions.

Before moving on, it is worth underscoring the types of conflicts that I am, and am not, talking about. My argument refers to small, isolated conflicts that exist in the peripheral zones of a country or are of such limited scale and intensity that they pose no real threat to government control of the state. This is a crucial distinction for two reasons, both of them referred to above but important to reemphasize here. First, many civil wars are high-intensity affairs that demand and receive the vast bulk of a government's attention and resources. In these cases, there is no need for IFIs to compel recipients to focus resources on ending conflicts. Second, in these high-intensity conflicts, IFI efforts to prod governments toward using aid to achieve negotiated settlements, as opposed to military victories, may fall on deaf ears because governments would have to give up so many concessions to reach peace agreements that it would threaten their hold on power to an unacceptable degree. Instead, the type of peace promotion that I believe characterizes aid recipients' mid-range preferences – program objectives they do not prioritize but do broadly support – is for low-intensity and/or peripheral conflicts that neither pose a threat to the government's control of the state nor would require it to give so much up in peace negotiations that the government's survival in office would be jeopardized.

2. Prevention

Investment in crisis prevention is another type of aid program that recipients are unlikely to prefer over all alternatives but that may nonetheless offer important benefits. Despite its clear payoff in terms of mitigating the impact of disasters and other calamities, investment in crisis prevention also imposes costs on developing countries. That is for two reasons, both linked to the overarching objective of political leaders to survive and the hurdles prevention efforts pose to that objective. The first has to do with issue salience. The second has to do with the challenge of time-inconsistency and claiming credit.

Political leaders are likely to be rewarded for benefits that people can see and feel in their daily lives, rather than the avoidance of damage from future crises that may or may not occur (Bussell, n.d.; Bussell & Fayaz, 2017; Healy & Malhotra, 2009; Hirshleifer & Hong Teoh, 2009; International Working Group on Financing Preparedness, 2017). By using scarce resources to avoid or lessen the impact of a potential shock, leaders divert resources that could be spent on priorities that are needed, demanded, and valued here and now. Data may signal that an earthquake is likely in the next 2-3 years, and that a country's building standards will leave its houses, apartments, offices, and bridges at risk of collapse when disaster strikes. In this situation, preventive investment in retrofitting the built environment would likely yield substantial medium-term gains in the form of lives saved and reconstruction costs averted. But calls from the selectorate to use scarce aid resources for health, education, roads, cash transfers, or other immediate, salient, visible services can create powerful incentives for leaders to forego investments in refurbishing and fortifying at-risk structures, because the benefits of doing so are less clear to the people and groups on whom leaders' political survival depends.

A second disincentive to investing in crisis prevention relates to time-inconsistency (Akerlof, 1991). Even if investment succeeds in preventing or mitigating a calamity, these benefits will materialize in the future, potentially after the leader who made the investment has left office. So, what makes sense to a leader's future self – investing to avert a crisis – does not align with the preferences of its present self – spending on things central to political survival. It is also hard to claim credit for something that never occurs: Leaders may struggle to draw a line from investment in crisis prevention, to the avoidance of a crisis, to the gains people experience from that crisis not having occurred. These dynamics give recipient leaders strong incentives to discount the value of, and forego investment in, crisis prevention and to instead use aid for other priorities that better serve their political aims.

Notwithstanding these drawbacks, investing in prevention does offer value to political leaders. In some cases, crises clearly illustrate the wisdom of preventive measures. In Chile, former Finance Minister Andres Velasco was criticized for ploughing the country's excess profits from high global copper prices during the mid-2000s into a reserve fund, instead of spending them to redress the country's social and economic inequalities (Frankel, 2012). However, when the 2008 financial crisis hit and other countries found their fiscal coffers strained, Velasco was able to tap the reserves built up during the boom period to finance spending that mitigated the impact of

the crisis on poverty and household welfare. Velasco's reputation soared among the Chilean public, and his image shifted from that of a wealthy plutocrat out of touch with the needs of ordinary people to that of a responsible, forward-looking leader whose fiscal prudence spared Chile from the struggles facing other emerging economies (Frankel, 2012).

3. Global public goods

As previewed in the Introduction, global public goods have three properties. They are non-rivalrous, meaning their consumption by one party does not deplete the supply of the good available to others. They are non-excludable, meaning no one can be systematically excluded from their provision. And they are global in scope, meaning that most people in the world can realize their benefits.[16] Examples of global public goods include climate change mitigation, environmental conservation, disease surveillance, financial stability, free trade, management of refugee flows, and prevention of money laundering.

Aid programs that promote global public goods share properties with others in the middle zone of recipient preferences. Similar to crisis prevention, the gains of global public goods may only emerge over time and can be difficult for leaders to claim credit for, but they may also free resources for spending on political priorities by offsetting global public 'bads', like pandemics, global financial instability, or poorly managed refugee flows.[17] Global public goods also by definition focus on external goals that benefit all nations, but, also by definition, they contribute to outcomes that benefit citizens of the contributing nation itself. Climate change mitigation shows how global public goods contribute to international goals while also providing domestic benefits. Efforts to reduce carbon emissions help mitigate the advance of climate change in all nations, thus serving external interests, but also mitigate risks of climate disasters within the country taking steps to reduce its emissions, thus serving national interests, as well.

Promoting global public goods can also provide reputational benefits that leaders can use to shore up their political standing. It may prove difficult to claim credit from domestic political

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[16] Definitions differ on just how 'global' global public goods must be, but most are aligned in the view that, so long as benefits are theoretically available to most of the world's citizens, they can be categorized as such. A good example is free global shipping lanes, from which all countries can theoretically derive benefits, but from which in practice free-trading nations benefit more than their autarkic counterparts. It is important to distinguish between global public goods and goods that are clearly regional – meaning they are exclusive to countries in a certain area – or national – meaning they only adhere to countries in a single nation – in scale. An example of a regional public good would be a free trade bloc or customs union like the European Union, which provides economic benefits to members at the expense of non-members. A national public good would be U.S. defense capabilities, which primarily benefit people living in the United States (even as close allies may also enjoy the good to an extent).

[17] Indeed, some actions that promote global public goods – like pandemic prevention – also promote crisis prevention. However, not all forms of crisis prevention are global public goods, nor vice versa. For example, using a fiscal rule to avert a fiscal crisis in a small, non-globally integrated economy may yield important benefits for that country but likely have little to no impact – positive or negative – on its global peers. A predictable and open global trading system is a global public good that (in theory) yields benefits to all nations through cheaper imports, stronger export revenues, and improved living standards, but it does little to prevent crises and, if managed poorly, may even contribute to economic and political turbulence in certain nations (Acemoglu et al., 2016).

audiences for using scarce aid resources to advance international objectives. However, as we will see in the cases of Jordan and Colombia, leaders may be able to leverage such efforts to accrue prestige and material benefits – like extra aid, investment, and political support – from grateful or impressed external actors that they can then use to reward their selectorate. In some cases, moreover, like curbing the outbreak of a pandemic, leaders are likely to face strong domestic pressure, and reap significant domestic political benefits, for taking steps to promote global public goods, because those actions are closely linked to immediate national priorities that are highly salient to the country's people.

So far, I have taken the following steps to build my theoretical argument. I first discussed how preference (mis)alignment contributes to (or detracts from) the ability of recipients and IFIs to strike and execute deals on aid program conditions. Building on that discussion, I identified a set of properties that characterize IFI programs that aid recipients are likely to prefer most, as well as those mid-range programs they are likely to broadly support but not consider top aid priorities. I then identified a set of properties that characterize programs most preferred by IFIs, arguing that the nation-centric objectives central to recipient survival should invert in the case of IFIs, leading them to prioritize programs that advance international objectives in line with their global mandates. Finally, I identified peace promotion, crisis prevention, and global public good provision as examples of costly development action program conditions where recipient and IFI preferences are sufficiently aligned that IFIs can use exceptional financial incentives to induce recipient compliance and still get adequate benefits from the deal.

The sections above laid the groundwork to empirically test my argument that IFIs can use exceptional finance to compel recipients to adopt the conditions of aid programs that reflect top IFI objectives and that recipients broadly support but do not prioritize. But before making the testable implications of my argument more precise, two of its components need to be further discussed. The first is what the exceptional financial incentives that IFIs can leverage to induce compliance actually *are*, and how they affect the benefits that recipients and IFIs expect to receive from proposed conditions and their best available alternatives. The second is when and why IFIs are likely to put exceptional finance to use. I discuss these two components next.

iv. Exceptional finance

This sub-section addresses how IFIs can use exceptional financial incentives to secure agreements on, and induce recipient compliance with, aid programs that promote costly development action. Before that discussion, however, it is important clarify the strategic challenge of reaching successful deals. The IFI wants the recipient to adopt a program the IFI values more than the recipient does, but because aid resources are scarce, using aid for one program reduces the amount a recipient has available for others. Moreover, because recipients must often repay IFI loans,[18] accepting a program deprives them of domestic revenue they could use for higher priorities. For the recipient, the opportunity cost of diverting from its

[18] Some recipients only receive IFI grants, which need not be repaid.

preferred program to the IFI's preferred program can prove quite high. Holding the substantive properties of a proposed program constant, it is these opportunity cost-related factors that affect the benefits a recipient expects to receive from the program relative to its best available alternative.

To compel recipients to adopt the costly development actions they prefer, the task for IFIs is to offer recipients enough benefits to leave them at worst indifferent between the costly program conditions preferred by the IFI and the recipient's best available alternative. IFIs need to do at least one of two things to achieve this. First, they can use side payments to make costly development action programs more beneficial or less costly to the recipient. Second, they can raise the costs of walking away by imposing penalties that would reduce the benefits of the recipient's best available alternative. In these ways, IFIs can ensure that adopting costly development action conditions provides recipients with benefits that equal or exceed their reservation points.

1. Forms of exceptional finance

I argue IFIs can use exceptional finance – deviation from IFI institutional norms and standards in the provision of aid – to alter the benefits recipients expect to receive from aid programs. There are two types of exceptional finance. Side payments add benefits to, or reduce the cost of, adopting IFIs' preferred conditions. Penalties reduce the benefits recipients would receive from walking away from a deal and reverting to their best available alternative (Table 2). The former reduce the opportunity costs the recipient incurs from adopting a program's conditions, while the latter reduce the benefits it could get from walking away. IFIs can use these forms of exceptional finance in tandem and to different degrees, applying as much or as little as they need to convince recipient's to adopt preferred conditions.

Table 2. Types of IFI Exceptional Finance

Type	Examples	Mechanism
Side payment: Adds benefits to, or reduces costs of, adopting IFI conditions	Concessional finance; additional finance; special finance	Reduces recipient opportunity cost of adopting IFI program conditions it does not prefer
Penalty: Reduces benefits offered by recipient's best available alternative	Cross-portfolio conditionality	Links adoption of IFI conditions to aid for recipient's current / future priority programs

There are three forms of exceptional IFI side payments that reduce the opportunity costs of using scarce aid resources for costly development action. One is concessional finance, or cheaper money, which offers lower-than-normal interest rates on IFI loans, thus reducing the amount recipients need to repay and freeing or preserving their own resources to use for other

priorities. A second such measure is additional finance, or more money, which involves IFIs providing recipients with a volume of finance that exceeds what institutional standards typically allow them to offer to a particular recipient. Because it makes aid less scarce, additional finance allows recipients to use IFI support for costly development action while preserving aid for recipients' higher priority programs. Third, IFIs can use special financial vehicles to offer recipients finance on unusually attractive terms, such as by leveraging trust funds, allowing extended repayment periods, or setting up *ad hoc* financial facilities to avert or mitigate specific crises. By adding benefits and reducing costs, exceptional side payments increase the relative attractiveness of costly development action and helps IFIs induce recipient adoption of these conditions.

Exceptional IFI penalties, by contrast, make the benefits a recipient expects to receive from its best available alternative equal to, or less than, the benefits it expects from costly development action. Such penalties work by linking programs across a recipient's portfolio. Usually, recipient programs are unlinked, in that negotiations on the substance and financial terms of one program do not directly or formally affect negotiations on the substance and terms of another. But IFIs do link programs across a recipient's portfolio in some ways, most importantly around loan repayment. If a recipient fails to make a scheduled payment on an IFI loan and falls into arrears, then IFIs typically stop disbursing aid not only for the delinquent loan, but for all loans across the recipient's portfolio with the IFI.

In theory, IFIs could use a similar approach to induce recipient agreement to, and compliance with, costly development action. This approach, which I conceptualize as cross-portfolio conditionality, would worsen the recipient's best available alternative, and thus reduce its reservation point, in strategic interaction on costly conditions. Normally, recipients can simply walk away from negotiations on a new IFI program if their best alternative offers more benefits. Doing so imposes no cost on the recipient, as it can feel confident the IFI will continue to disburse aid for existing programs that the recipient values more than the costly action program it has just declined. It can also feel confident that refusing to adopt the IFI's preferred program will not hinder its ability to secure its own preferred programs in the future.

Cross-portfolio conditionality would change this calculus by raising the costs of walking away. IFIs could exceptionally make the provision of aid for existing and potential future programs that recipients prefer contingent on their willingness to also use aid for programs that IFIs value more. The expected benefits of the recipient's 'fallback option', its best available alternative, would thus decline if it refused to agree to, or subsequently comply with, the conditions of IFI-preferred costly development action programs. IFIs could calibrate the extent of this penalty by applying it to more or less of the recipient's existing programs or by applying it, or not, to future programs. This punitive form of exceptional finance would thus allow the IFI to reduce the benefits the recipient expects to receive from its best alternative to a level equal to, or lesser than, the benefits it would receive from taking costly action, leaving the recipient just as well off from adopting the IFI's priorities as from pursuing its own.

2. Costs of exceptional finance for IFIs

If exceptional finance is so effective in compelling recipients to adopt IFIs' preferred conditions, why do IFIs not use it more often? If exceptional finance allows IFIs to get the outcomes they want, why do they not deploy it anytime negotiations on a new aid program get tough? The answer is that IFIs incur a cost from using exceptional finance. Deviating from standard practices weakens one of their most important assets: institutional integrity. IFIs must thus carefully weigh the costs and benefits of this strategic tool.

As discussed in the previous chapter, IFIs attract business and secure trust from recipient nations by dint of their technical expertise, lack of overt political stances, and predictable, impartial enforcement of transparent rules and standards. This makes them attractive to developing countries concerned about the predictability of aid from bilateral donors, which can shift with political winds, or private investors, whose finance ebbs and flows with economic dynamics often beyond recipient control. If IFIs deviate from institutional standards, recipients may come to view the application of IFIs' rules as subject to the same subjectivity and gyrations as other financiers. This perception would threaten to weaken member states' confidence that IFIs will treat them fairly, thus reducing one of the most attractive aspects of turning to IFIs for financial support. Such a loss of confidence would deprive IFIs of an asset that is core to their mandate, effectiveness, and ability to survive.

Crucially, using exceptional financial measures to incentivize recipients to agree to, and comply with, preferred programs detracts from the perceived integrity of IFI institutional standards. Each of the measures described above – reducing interest rates from normal levels; adding to a recipient's aid volume; and introducing penalties for turning down certain programs – represent deviations from IFIs' normal practice. Deploying them leaves IFIs exposed to charges that they enforce one set of rules for some recipients and another set of rules for others. Such charges risk weakening the integrity of IFI institutional standards by fueling perceptions that those standards are selectively applied. Using exceptional finance thus imposes costs on IFIs and detracts from the benefits they receive from the conditions they use exceptionality to secure, including those that promote costly development action.

The cost that IFIs incur from deploying exceptional finance has significant implications for the likely outcome of strategic interactions between IFIs and recipients on aid program conditions. Because offering exceptional financial incentives reduces the benefits that IFIs expect to receive from recipients' adoption of their preferred conditions, its use may in some cases leave IFIs worse off than their best available alternatives. I expect this to occur when recipient and IFI preferences sharply misalign. In these scenarios, IFIs would have to offer such extensive side payments or threaten such extensive penalties that the costs to IFIs' institutional integrity would more than offset the benefits they expect to accrue from convincing recipients to adopt their preferred conditions. IFIs would in these cases be better off walking away from the deal than providing the exceptional finance necessary to secure it.

It is perhaps useful to illustrate the dynamics of institutional integrity costs with an example. Imagine that an IFI, like the World Bank, were negotiating with a large middle income country, such as Egypt, on sensitive policy reforms the IFI deemed necessary to bring the country's fiscal position to a more sustainable level. In countries like Egypt, direct consumer subsidies for staple items like food and fuel constitute a significant share of public expenditure, and these subsidies would considerably reduce government spending and its need to borrow at unsustainable levels in capital markets. However, because of the centrality of food and fuel subsidies to the welfare of tens of millions of civilians, the government expects their removal to engender strong political backlash that could jeopardize its survival in office. It is thus strongly opposed to adopting subsidy reduction or removal as a condition for World Bank budget support.

In this case, the World Bank would need to offer extensive exceptional financial incentives to change Egypt's mind. This might include a massive side payment. For example, the Bank could offer the budget support loan as a non-repayable grant or go beyond the country's single borrower limit to provide a volume of finance that fully offsets the cuts to public expenditure from subsidy reform and allows it the government to use the proceeds for any non-subsidy purpose it desires. Conversely, the Bank could threaten to cut off all other current and future lending to Egypt unless and until it adopts the reform, and to cajole other regional development banks to do the same. Both of these measures would mark extreme deviations from the Bank's normal way of doing business and likely draw considerable backlash from Egypt, if extreme threats were made to induce its acquiescence; from other developing countries, if Egypt were offered extensive side payments that they had never been afforded; and from Bank donor countries, which would balk at this flagrant violation of institutional rules and standards.[19]

However, scenarios are seldom as extreme as in the example above. When recipient and IFI preferences are less sharply misaligned – as in the case of costly development action like peace, prevention, and global public goods – exceptional finance offers a more promising solution to achieving mutually beneficial strategic outcomes. In these scenarios, IFIs still need to employ exceptional finance to compel recipients to adopt their preferred conditions, because recipients do not prioritize costly action. However, because recipients are not as opposed to these measures as those, like subsidy reform, that more directly threaten their political survival, the level of exceptional finance that IFIs need to use – and the costs to institutional integrity they would incur – to compel recipients to adopt these measures is much lower. The result is that IFIs can often use exceptional finance to make costly conditions more beneficial to recipients than their best available alternative, while ensuring that the resulting deal also leaves IFIs better off than what they would get by walking away from the deal.

d. Testable theoretical implications

In this section, I derive testable implications of the theory that I developed in the section above. There are three central arguments I have made to this point that are important to restate. The

[19] Of course, some key donor countries may view Egypt as a strategic ally and thus be very much in favor of extending the country special support to help it preserve political stability while undertaking sensitive reforms.

first is that IFIs can use exceptional financial incentives to shift the benefits recipients expect to receive from different aid programs. Second, because IFIs incur costs from using exceptional finance, they deploy it selectively, in cases where they can secure desired outcomes for acceptable costs. Third, IFIs are most likely to use exceptional finance to advance top institutional priorities, like peace, prevention, and global public goods, that recipients do not prioritize but do tend to broadly support or at least not strongly oppose. In strategic settings like this, where recipient and IFI preferences are sufficiently aligned, the use of exceptional finance leaves recipients better off adopting IFI conditions than reverting to their best available alternative while also ensuring IFIs would still benefit more from the deal than walking away.

These arguments lend themselves to a series of hypotheses that can be empirically tested. The first is that we should see a strong correlation between agreed costly development action programs and the presence of IFI exceptional finance. Recipients demand these side payments – or need to be threatened by these penalties – to make it worthwhile to agree to program conditions that they broadly support but do not prioritize. IFIs, for their part, will tend to require recipient commitment to costly development action in order to be willing to incur the institutional integrity costs created by deviating from their standard financial practices. This leads to a related set of hypotheses. We should see that:

H1. Recipients are more likely to agree to programs with costly development action when IFIs deploy exceptional finance than when IFIs do not.

H2. IFIs are more likely to deploy exceptional finance for programs with conditions that promote costly development action than for programs with conditions that do not.

Exceptional finance should contribute to recipients being more likely to both agree to, and comply with, costly IFI conditions, because exceptional incentives make it in the recipient's interest to do so. However, as the existing literature shows, recipients often sign onto aid conditions only to renege on them when IFI money starts to flow. I am thus particularly interested not only in whether the use of exceptional finance can get recipients to agree to costly conditions *ex ante*, but whether it can induce them to ultimately comply with the costly conditions to which they initially signed on. My argument is that, once IFIs deploy exceptional finance in a bid to induce costly development action, recipients should be more likely to comply with the conditions in those programs than in costly development action programs where exceptional finance is not used. Further, as noted, I expect IFIs to deploy exceptional finance strategically in cases of costly development action, which recipients are likely to broadly support but not prioritize, rather than for conditions recipients staunchly oppose. Since IFIs use exceptional finance when they feel confident in their ability to induce compliance, I expect recipients to comply more with costly conditions than conditions in other programs.

These considerations imply the following hypothesis:

H3. Recipients are more likely to comply with the conditions of costly development action aid programs when IFIs use exceptional finance than when IFIs do not.

While these are the main tests of my theory, there are other dynamics it will be important to explore in the data. One, which is implied by hypothesis three above, is to test the effect of exceptional finance on recipient compliance, regardless of whether costly development action is present or not. While I have argued that IFIs are likely to use exceptional finance primarily in cases of costly development action, they may also use it in other instances that my theory does not cover, such as when a recipient is a particularly important borrower for the IFI, or when powerful IFI board members pressure IFIs to treat an ally or adversary in an exceptional way (Stone, 2011). Because exceptional finance adds incentives for recipients to comply with a program, they should be more likely to comply with those programs. Finding evidence of this would support my argument around the ability of exceptional finance to shape the benefits recipients expect different aid programs to provide. Hence, an additional hypothesis is that:

H4. Recipients are more likely to comply with conditions of programs where exceptional finance is used than conditions of programs where it is not.

Finally, I have argued that costly development action is just that – costly for recipients to adopt. The theoretical basis for using exceptional finance is that it helps overcome recipients' disincentives to bear these costs. But absent exceptional finance, recipients should, all else equal, adopt costly development action program conditions less often than conditions of other programs. To see this, recall my argument that recipients are unlikely to agree to programs they staunchly oppose, both because they do not value these programs and because IFIs are unlikely to offer sufficient side payments or threaten big enough penalties to make compliance more beneficial than recipients' best available alternatives. We should thus not see a lot of programs in the data that strongly depart from recipients' preferences. This implies that the universe of programs that do not feature exceptional finance should largely reflect recipient preferences, even as it may also include a limited number of programs in which recipients idiosyncratically agreed to costly development action conditions or were successfully pushed, perhaps by a powerful donor country, to adopt conditions they actively opposed. This implies that:

H5. Among programs where exceptional finance is not used, recipients are less likely to comply with those that feature costly development action conditions than those that do not have costly conditions.

e. Conclusion

In this chapter, I developed a theoretical approach to help explain variation in the efficacy of aid conditionality. My theory contends that preference alignment is central to strategic interaction between recipients and IFIs on aid program conditions. Sometimes, the alignment of preferences is conducive to IFIs using exceptional financial measures like side payments or the threat of penalties to convince recipients to adopt conditions they otherwise would not. I

argued this is most likely to occur in the case of conditions that reflect IFI institutional priorities, like peace, crisis prevention, and global public goods, that recipients broadly support but do not often prioritize for the use of scarce aid resources. In these settings, the use of exceptional finance can leave recipients better off adopting IFIs' preferred conditions than reverting to their best available alternative, while the institutional integrity costs IFIs incur in using this exceptionality remain small enough to ensure they benefit more from the deal than walking away. In the final part of the chapter, I derived a set of hypotheses from my theory that I will test empirically in the remainder of the dissertation, starting with the statistical analysis in the following chapter.

4. Statistical Analysis: Costly Development Action and Exceptional Finance in World Bank Aid Programs

The last chapter articulated a theory of the ability of IFIs to use exceptional financial incentives to induce costly development action (CDA)[20] by foreign aid recipients. I argued that existing research on aid conditionality does not adequately account for variation in the alignment of recipient and IFI preferences over aid program objectives and the role of preference alignment in inducing agreement to, and compliance with, programmatic conditions. I also argued scholars have not considered or analyzed the full range of financial incentives IFIs can use to convince recipients to comply with aid conditions. These oversights may help to explain the generally pessimistic assessment of the ability of IFIs to induce certain actions by aid recipients. To address these gaps, my theoretical argument explicitly incorporates preference alignment and contends that in strategic settings where recipients and IFIs both support, or at least do not strongly oppose, proposed program conditions – as with those that promote the CDA of peace, prevention, and global public goods –, IFIs can use exceptional finance to induce costly reform.

This chapter takes a first step in subjecting my argument to empirical testing. Leveraging data from 595 World Bank development policy operations (DPOs) from fiscal years (FY) 2010-2019[21], the chapter uses statistical analysis to test the five hypotheses presented at the end of the previous chapter: (i) whether recipients are more likely to agree to, and (ii) comply with, CDA conditions when IFIs deploy exceptional finance; (iii) whether IFIs are more likely to use exceptional finance for CDA conditions than non-CDA conditions; (iv) whether recipients are more likely to comply with conditions, of all kinds, when IFIs deploy exceptional finance; and (v) whether recipients are less likely to comply with CDA conditions than non-costly ones in cases where exceptional finance is not used.

I find support for the most direct test of my argument. Recipients are more likely to comply with CDA conditions when IFIs use exceptional financial incentives. This result is robust to different model specifications and robustness checks. I also find evidence that supports other aspects of my argument, namely that recipients are more likely to comply with programs of all kinds – regardless of costliness – when IFIs use exceptional finance. In sum, the empirical results in this chapter support my argument and pave the way for analysis in subsequent chapters of whether the correlations in the statistical tests reflect a causal relationship.

The chapter is structured as follows. I first provide an overview of the data used for the statistical analysis. Second, I discuss the definition and operationalization of the dependent and independent variables, as well as a series of control variables used in the analysis. Third, I describe the process used to code each aid program and present summary statistics from the review of program documents. Fourth, I describe the regression model and robustness checks used to test each hypothesis, and present my analytical results. I then conclude by identifying implications of the findings and previewing how they are addressed in the following chapters.

[20] While I write the term 'costly development action' in other chapters, I abbreviate here due to frequency of use.

[21] The World Bank fiscal year runs from July 1 to June 30. FY2022 thus ran from July 1, 2021, to June 30, 2022.

a. Overview of the data

The analysis conducted in this chapter draws on the World Bank Development Policy Actions Database (DPAD), which features more than 900 DPOs and 9,000 aid conditions from 2004-2022 (World Bank, 2022c). As discussed in chapter 2, DPOs are the type of World Bank lending, often called 'budget support' or 'policy lending', that provide aid in exchange for policy reforms. These reforms are reflected as conditions, or 'prior actions' or 'triggers', in the programmatic agreement, and represent the steps recipients must take to receive World Bank finance under the current and, in some cases, future programs. While other types of Bank lending, such as investment project financing, provide finance to procure goods and services, DPOs provide finance to incentivize conditioned reforms. Even as other program types also place conditions on aid disbursement, they are not as closely linked to policy reforms as DPO conditions. DPOs offer the best depiction of recipient-IFI strategic interaction over the nature of aid conditions and thus allow for the most direct test of my theoretical argument.

In addition to the DPAD, I draw on project ratings from the Independent Evaluation Group (IEG), the independent evaluator of World Bank activities. IEG's mandate is to evaluate the effectiveness of Bank-financed programs, including DPOs. It uses a six-point scale to rate whether programs achieved their objectives: 'Highly Satisfactory' is the best rating, and 'Highly Unsatisfactory' is the worst, with 'Satisfactory', 'Moderately Satisfactory', 'Moderately Unsatisfactory', and 'Unsatisfactory' representing intermediate ratings. IEG does not rate whether a recipient complied with each prior action or trigger, but its assessment of how well the recipient fulfilled program conditions serves as a key input to its overall DPO rating. The IEG rating can thus proxy for compliance with aid conditions and be used with other DPO information to operationalize my dependent variable of recipient compliance with CDA.

Not all of the details needed to code programs for exceptional finance and CDA are in the DPAD, which required me to use other documentation to obtain this information. Fortunately, the World Bank has an open access to information policy that makes nearly all project documents available to the public. The most important documents for the data in the statistical analysis in this chapter are 'project appraisal documents' (PADs),[22] which set out the context, financial information, objective, and substantive details of each program the World Bank finances. DPO PADs identify the specific conditioned reforms, or prior actions, the recipient agrees to undertake before finance is released under the current program. In the case of DPOs that are part of a programmatic series[23], PADs also list the trigger reforms that would allow the recipient to move from the current program to the next program in the series.[24]

[22] PADs are sometimes called 'program documents', which a similar purpose and have similar information.

[23] As noted in the prior chapter, programmatic series are a small number of DPOs, usually 2-4, that are pursued in succession and promote the same overarching objective, such as macroeconomic stability or social inclusion.

[24] In some cases, DPO finance is recently in multiple tranches, with recipients required to comply with conditions at different stages of the program in order to receive its full financial commitment.

While PADs usually had the information needed to code for the variables used in the statistical analysis, in some cases other documents required review. PADs themselves were sometimes not available, even in the Bank's internal Operations Portal, which provides staff access to project documents beyond those available to the public.[25] In these cases, I used the project information document, an abridged version of the PAD that features much of the same information in less detailed form. This occasionally prevented robust coding of all variables. Yet such instances were sufficiently rare to not affect analytical results.

b. Introduction of variables

i. Dependent variable

The dependent variable in the analysis is compliance with DPO conditions that promote CDA. I define CDA as conditions that promote peace, crisis prevention, or global public good provision. I operationalize the dependent variable in two ways. First, I code for the presence or absence of CDA in the prior actions and triggers of World Bank DPOs, as these are the actions recipients must take as a condition of receiving aid under the current or a planned future program. Second, I code for compliance with aid program conditions based on IEG's rating of each DPO.

As discussed in the previous chapter, I conceptualize CDA as taking three forms: peace, prevention, and global public goods. For the statistical analysis, I define peace as prior actions or triggers in DPOs that promote the achievement or consolidation of peace or the prevention or resolution of violent conflict. I define prevention as prior actions or triggers that aim to prevent the emergence or escalation of crises. The crises for which I code include those related to natural disasters or human-made emergencies[26]; fiscal, financial, and other types of macroeconomic emergencies; and the erosion or exhaustion of environmental or other resources upon which a society depends. While this does not exhaust the crises developing countries face, it captures those with high development salience, which is what IFIs focus on.

Finally, I define global public goods as prior actions or triggers that promote benefits that are non-excludable, non-exhaustible, and global in scope (Chin, 2021). Within the context of public goods, non-excludable means benefits that no one can be readily denied. Non-exhaustible means benefits do not decline with consumption. Global means people in all or the vast majority of nations enjoy the benefits. Global public goods take several forms, but those commonly included in development programs – hence coded for in this analysis – include climate change mitigation; support for refugees; global financial stability; facilitation of world trade; conservation of exhaustible, globally shared natural resources; and combating of money-laundering, tax evasion, and the financing of terrorism. When a World Bank DPO features one or more of these measurements of peace, prevention, or global public goods, I code the dependent variable of CDA as present; when they do not, I code CDA as absent.

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[25] I leveraged my status as a World Bank staff member to access the Operations Portal to search for documents.

[26] These could include food security crises, which often derive from a set of exogenous factors, like drought, and human-induced problems, like conflict.

The IEG rating serves as my measure of compliance with DPO conditions. While, as noted above, the IEG rating does not hinge entirely on recipient compliance with prior actions or triggers, compliance with those conditions does serve as a key input to the IEG rating, which makes it a useful proxy for recipient compliance with programmatic conditions, an approach similar to what scholars have adopted in other work (Girod & Tobin, 2016; Smets, Knack, & Molenaers, 2013). As noted, IEG ratings use a six point scale, which I split to code for compliance: Recipients were coded as complying with conditions in DPOs IEG rated as 'Highly Satisfactory', 'Satisfactory', or 'Moderately Satisfactory', the top three ratings; they were rated as not having complied with conditions in DPOs IEG rated as 'Moderately Unsatisfactory', 'Unsatisfactory', or 'Highly Unsatisfactory'. I thus code my dependent variable as present in DPOs that (i) promote CDA *and* (ii) receive an IEG rating of 'Moderately Satisfactory' or better, and as absent in DPOs that fail to meet at least one of these criteria.

ii. Independent variable

Exceptional finance serves as the independent variable in my analysis. I define exceptional finance as IFI measures that diverge from the institutional standards and norms that govern IFIs' provision of aid to recipient nations. I operationalize exceptional finance as the presence or absence of one or more of the four approaches I conceptualized in chapter 3: concessional, or lower-than-normal, interest rates; additional finance; special finance; and cross-portfolio conditionality. Concessional interest rates are measured as IFIs offering finance to countries at interest rates lower than they would normally receive. Examples include providing zero-interest rate loans to an IBRD country, as through the Global Concessional Financing Facility for IBRD countries that host large numbers of refugees, and providing grant financing to an IDA country that typically receives non-grant loans at concessional interest rates.

Additional finance is the provision of volumes of finance that exceed what World Bank standards usually allow it to provide to a particular country. In the case of IBRD countries, these limits are based on single-country exposure or headroom limits that the Bank imposes to manage default risk across its portfolio. Additional finance for IBRD countries can take the form of donor-backed guarantees that allow the World Bank to lend money beyond the county limit and transfer the risk to donor countries, who agree to pay the Bank directly in case the borrower defaults. In the case of IDA countries, limits on the amount of finance the World Bank provides stem from a country's performance-based allocation (PBA), which itself derives from the strength of a country's governance and institutions as measured by the Bank's Country Policy and Institutional Assessment. Additional finance for IDA countries can take the form of IDA facilities that provide countries volumes of finance that exceed their PBA in exchange for adopting specific reforms, such as those related to refugee support, crisis prevention, and

conflict prevention or resolution.[27] World Bank-managed trust funds that help finance DPOs represent another form of additional finance, as they add to the normal allocation of Bank resources that countries have available.

Special financial vehicles consist of *ad hoc* facilities established to help countries confront a specific, unexpected challenge, often in response to a crisis or other exogenous shock. Importantly, special finance and additional finance are not mutually exclusive: Indeed, the former includes all of the types of financing in the latter, such as IDA facilities and World Bank-managed trust funds. Two categories of finance are specific to special finance. The first is facilities set up for a set period to provide countries with additional or unusually affordable finance to deal with a specific, time-bound challenge. Examples include the Scale-up Facility established during the global financial crisis of 2008-2009, as well as more recent health facilities to help countries address the COVID-19 pandemic (even though, as noted below, these are not addressed in the statistical analysis, since the period of analysis excludes the pandemic). These facilities are similar to the IDA facilities listed above, but differ in that they are established based on unanticipated events rather than the deliberate negotiations over IDA funding streams. The second category that distinguishes special from additional finance is mechanisms that provide financing outside of the World Bank's usual program-based funding model to support specific objectives. One example is Catastrophe Deferred Drawdown Options, or 'CAT-DDOs', where the Bank approves a contingent line of funds a country can draw on if a specified disaster or crisis occurs but that otherwise does not disburse.

Finally, cross-portfolio conditionality is operationalized as a non-final DPO in a programmatic series. As discussed above, DPOs are commonly introduced not as 'standalone' operations but as part of a series of multiple, linked DPOs that all promote similar overarching objectives, like prudent macroeconomic policy and enhanced economic competitiveness. DPO PADs and the DPAD itself denote whether the program is part of a programmatic series; the number of DPOs in the series; and which number the particular DPO is in that series. To operationalize cross-portfolio conditionality, I code presence as cases where a DPO is part of a programmatic series but *not* the final program in that series. This is a crude proxy for cross-portfolio conditionality as conceptualized in the last chapter, where I theorized that IFIs can induce compliance with conditions by requiring recipients to adopt IFI-preferred programs in order to continue to receive aid for existing recipient-preferred programs or to secure IFI agreement on future recipient-preferred programs. However, because IFIs seldom link programs across the portfolio in this way – at least explicitly –, the idea here is to explore the potential efficacy of that approach by testing a similar dynamic for which sufficient data exist, namely non-final DPOs, which offer IFIs a chance to compel costly action by conditioning future finance on compliance with current conditions.

[27] As discussed earlier, examples include the IDA Crisis Response Window, Refugee Sub-window, Window for Host Communities and Refugees, Risk-Mitigation Regime, Prevention and Resilience Allocation, Turn-around Regime, Turn Around Allocation, and the Remaining Engaged during Conflict Allocation.

iii. Control variables

I also control for a series of variables that may affect both the dependent and independent variables and thus bias the analytical results. A range of factors could affect the proclivity of recipients to take costly development action and/or the willingness of IFIs to deploy exceptional finance in aid programs. Some of these are clearly idiosyncratic and unlikely to appear systematically across cases, such as if a set of powerful donors have a strategic interest in a particular country taking a particular costly action at a particular point in time. However, theory suggests some variables may affect both variables consistently across cases and time and therefore warrant controlling in the analysis. I discuss these variables below.

1. Economic development

A country's level of economic development is likely to bear on its willingness to agree to and adopt costly development action. When countries are poor, they likely need aid more for key services, such as health and education, than those that are wealthier. Higher need for aid may leave poor countries at a strategic disadvantage in negotiations with IFIs on costly development actions. That is, because they need the aid more, they may be more willing to agree to and adopt costly actions than their wealthier counterparts. For this reason, the analysis controls for both gross national income (GNI) and GNI per capita to ensure that a country's level of economic development does not confound the observed effect of exceptional finance on CDA.

2. Aid

Similar to economic development, the level of aid a country receives may influence its adoption of CDA. Countries that receive relatively high levels of aid are likely more dependent on that aid to preserve key government functions and services or, more sinisterly, resources for elite to loot.[28] As with income, this may leave them less able to resist IFI entreaties to adopt costly reforms than wealthier aid recipients. For this reason, I control for two measures of aid dependence: aid as a share of overall GNI and aid as a share of government expenditure. Doing so helps ensure that the apparent effect of exceptional finance on costly action is not an artifact of countries that depend on aid more readily giving in to IFI demands.

3. Debt

Public debt is another variable that might affect the willingness of aid recipients to agree to, and comply with, CDA in aid programs. However, unlike with economic development and aid dependence, it is not clear in which direction this factor is likely to push. A government with a high level of public debt may be particularly inclined to secure IFI aid, which is typically offered at lower interest rates than developing countries could command on open capital markets,

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[28] This is not to say that IFI aid is easily lootable. Indeed, the World Bank leverages significant financial controls and imposes stiff penalties to deter and punish misappropriation of resources. However, money is fungible, which means that access to robust aid resources may increase the ability of elites to siphon funds from other sources.

because doing so allows it to pay for key services without exacerbating already high levels of indebtedness. On the other hand, high levels of public debt may leave a recipient particularly *disinclined* to take IFI aid unless it is offered as a grant, because, while cheaper than loans from other sources, that aid would still need to be repaid, thus adding to its debt stock. Regardless of direction, there is reason to believe a country's level of public debt may influence its decisions on whether to adopt costly aid programs, and I therefore control for it in the analysis.

4. Social development

Another set of factors that could shape the outcome of interest relate to social development. Here, the expectation is that higher levels of social development would make countries more inclined to conduct CDA. Countries with higher social development may be more favorable toward pursuing peace, more cognizant and supportive of the benefits of investing in crisis prevention, and more worldly in their outlook and thus more willing to support efforts that benefit not only themselves but other nations. Controlling for social development is not easy, but literacy rates and life expectancy are useful proxies, as they connote a society's levels of education and health. I control for these variables in the analysis.

c. Summary Statistics

Summary statistics for the 595 coded World Bank DPOs from FY2010-2019 are presented below. The aim of this section is to give a feel for the data, show evidence related to key aspects of my argument, and identify additional factors for which the analysis may need to control. I start by describing the process that was used to code the data, including documentation used and how discrepancies in coding choices were resolved. The section then gives an overview of the temporal and geographic distribution of the number and financial size of DPOs across the period, before turning to data more directly related to my theory, namely evolution in the use of CDA and exceptional finance over time, the types of each variable that are more and less common, and trends in compliance. These summary statistics lay the foundation for the analysis discussed in the next two sections.

i. Coding process

To prepare the analysis, two research assistants and I coded and recoded all 595 DPOs in the DPAD from the years 2010-2019 for which necessary documents were available. For the analysis, 495 DPOs were included, as 100 DPOs had not yet received a rating by IEG – a component of my dependent variable – and were thus dropped.[29] I chose the 2010-2019 date range for two reasons. The first was to exclude major exogenous shocks, namely the global financial crisis of 2008 and the onset of the COVID-19 pandemic in 2020, which likely altered

[29] IEG takes several months to evaluate and rate programs once they close. Programs that had not received ratings at the time of analysis were those that closed toward the end of the data period and were still being evaluated. There is no reason to believe these programs are systematically different than those that had already received ratings, hence no reason their exclusion introduces bias into the analysis.

the structural dynamics of strategic interaction between IFIs – which faced extraordinary pressure to push money out the door – and recipients – which faced extraordinary pressure to maximize aid inflows of any kind to offset the crippling effects of the virus. Second, DPADs took their current form in the late 2000s, so limiting our coding to 2010-2019 helped ensure we coded comparable documents for the data in our analysis.

My team coded for the presence or absence of the dependent variable – compliance with CDA – and independent variable – exceptional finance. We also coded for the suite of theoretically relevant country control variables discussed above. These include GNI and GNI per capita; public debt as a share of gross domestic product (GDP); aid as a share of GDP and public spending; and measures of social development, namely literacy rates and life expectancy. Each DPO was also coded for the region in which the recipient country is located; the size, lending rate, and maturity of the program's financial package; whether the country was an IDA, IBRD, or 'blend' country at the time of the program; and whether other, non-World Bank sources contributed aid directly to the program's financing. Most of these data were taken directly from the DPAD, but other data came from our review of DPO documents.[30]

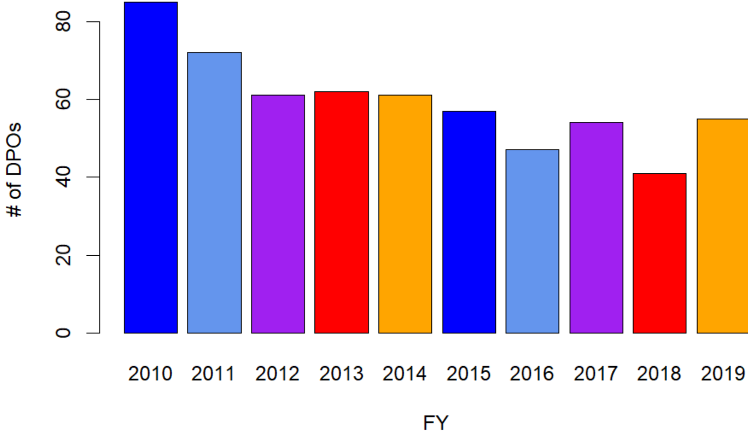
My team took multiple steps to ensure the robustness of our coding. First, each coder made extensive notes on 'margin calls', or cases in which the presence or absence of the dependent or independent variable was not clear, describing why they ultimately coded as they did. Each coder then had the programs they coded recoded by the two other researchers. This made it possible to gauge inter-coder reliability and surface cases in which the team coded variables differently, especially the dependent and independent variables. In discrepant cases, the team assigned a single coder to make a 'final' coding choice that reflected their best judgment based on their own reading of the project documentation and the coding choices and reasoning of their counterparts. However, the team also preserved each coder's initial coding to make it possible to check the robustness of results to different coding choices.

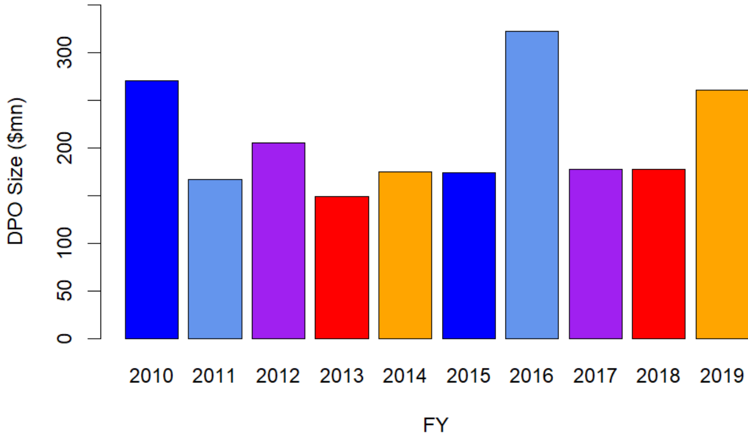
ii. Temporal and financial variation

The coded data reveal broad consistency in the number and financial size of World Bank DPOs approved from FY10-19. An average of 60 DPOs were approved each year during the period. As seen in Figure 1, the highest number – 85 – was approved in 2010, perhaps indicating more countries turned to the Bank for support to address lingering effects of the global financial crisis of 2008. This offers support for my choice to exclude the worst of the crisis period. That shock may have introduced atypical dynamics into strategic interaction between recipients and the Bank – with the Bank scrambling to provide aid and recipients willing to adopt unusually difficult reforms – that could bias analytical findings. Broadly, however, the number of approved DPOs was fairly balanced, with most years seeing from 55-65. Data on the financial

[30] Many DPOs lacked data for all these control and additional variables. The R software environment used for the regressions described below dropped DPOs with missing values from the analysis. This helps explain discrepancies in the number of observations listed in the analytical results in Table 2 below and the 495 DPOs coded for analysis. I have no reason to believe that data are non-randomly missing or that excluding these DPOs biases the results.

size of World Bank DPOs reveal similar consistency. Figure 2 shows that the average DPO's financing amount was just over $200 million, or $208 million, from 2010-2019. This average remained fairly consistent over the period, but a few years did experience notable increases, particularly FYs 2010, 2016, and 2019. The FY10 uptick may have been a remnant of the financial crisis, similar to the uptick in the number of approved DPOs discussed above. It is not immediately clear what accounts for the unusually large DPO financing packages in FYs 2016 or 2019, suggesting that it may be necessary to control for time in the statistical analysis.

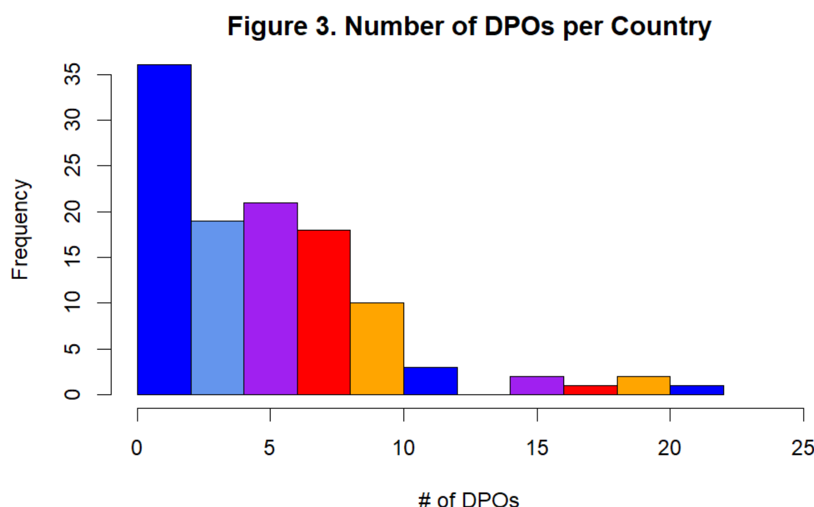




i. Geographic variation

Because my theory is global, and I expect it to apply similarly across geographies, it is useful to look for variation in the data in DPO dynamics across countries and regions. I first turn to

countries. Over the period in focus, 113 different countries had DPOs approved. This is equivalent to some 60 percent of the now-189 World Bank member countries[31] and an even higher share of the Bank members that actually receive aid, as several high-income members – such as the United States, the EU, Japan, and Singapore –are exclusively contributing countries. The vast majority of countries agreed between one and ten DPOs over the period, as seen in Figure 3, but several had well over ten, with some agreeing to as many as 22. The fact that so many countries took so few DPOs limits potential within-country variation across years on the dependent variable, which augurs against using country fixed effects in the analysis. However, I do cluster standard errors at the country level to account for within-country correlation.



I next turn to regions. During the analytical period, the World Bank grouped recipient countries into six regions: Africa (AFR), East Asia and Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LCR), the Middle East and North Africa (MNA), and South Asia (SAR).[32] As shown in Figure 4, at 207, AFR received by far the highest number of DPOs among World Bank regions during the period. There is then a significant drop-off, with LCR, ECA, and EAP taking a similar number of DPOs, at 108, 95, and 91, respectively. This group is followed by MNA, which had 53 DPOs approved during the period, followed by SAR, which had the fewest DPOs, with 39. Turning to financial size, however, we see quite different trends, seen in Figure 5. While AFR had by far the highest *number* of DPOs, the average *financial size* of those DPOs was by far the lowest, at $76 million per program. MNA, for its part, had the second-fewest DPOs during the period, but its DPOs had by far the highest financial value, at an average of

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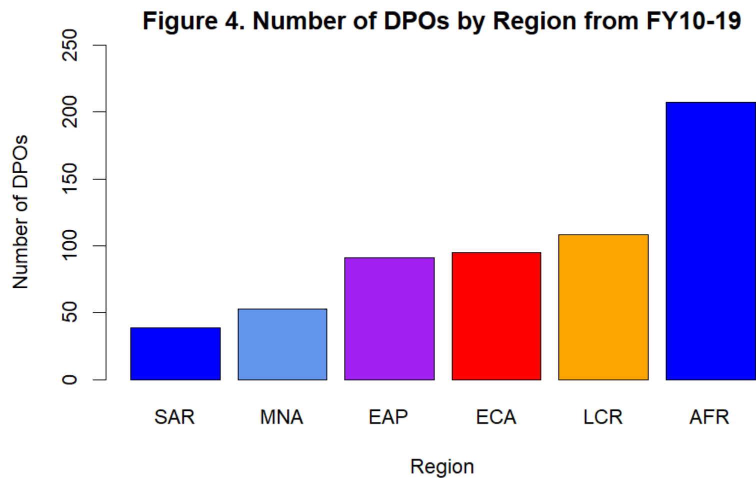
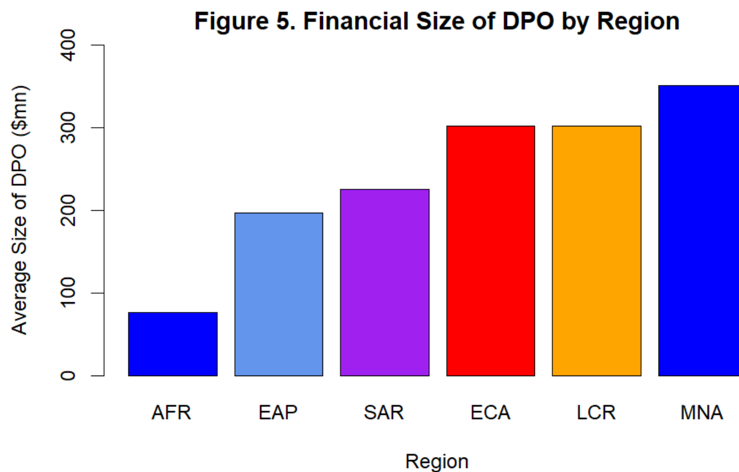
[31] Multiple new countries joined the Bank over the analytical period, including, most recently, Nauru, in 2016.

[32] The World Bank has subsequently divided the former Africa region into two regions: Eastern and Southern Africa and Western and Central Africa.



$351 million, some five times larger than the average DPO size in DPO. Interestingly, DPOs in ECA and LCR had nearly identical financial sizes, at $300 million and $302 million, respectively. Clearly, number and financial size of DPOs bear little correlation.



Multiple factors could explain variation in the number and size of DPOs across regions. One is level of economic development. DPO financing size is in part a function of the size of a country's economy, and it is thus not surprising that African economies, which are relatively small, received smaller DPOs than other regions. But economic development alone does not explain DPO financing size. DPOs in LCR and ECA were nearly identical in size, even as the latter has far higher per capita GNI. EAP, which has the second-highest per capita GNI among regions, had the second-smallest average size of DPO.

The number of DPOs appears to be primarily a function of number of countries in the region. With over 50, AFR has by far the most countries of any region, which helps explain why it had the most DPOs. SAR and MNA, for their part, have the fewest and second-fewest countries and the lowest and second-lowest number of DPOs, respectively. Size of economy and number of countries seem to account fairly well for variation in the size and number of DPOs across regions, which allows me to conclude that this variation is likely not driven by other factors that could also affect the outcomes of strategic interaction on DPO conditions. As such, I do not control for region-specific factors in the statistical analysis.

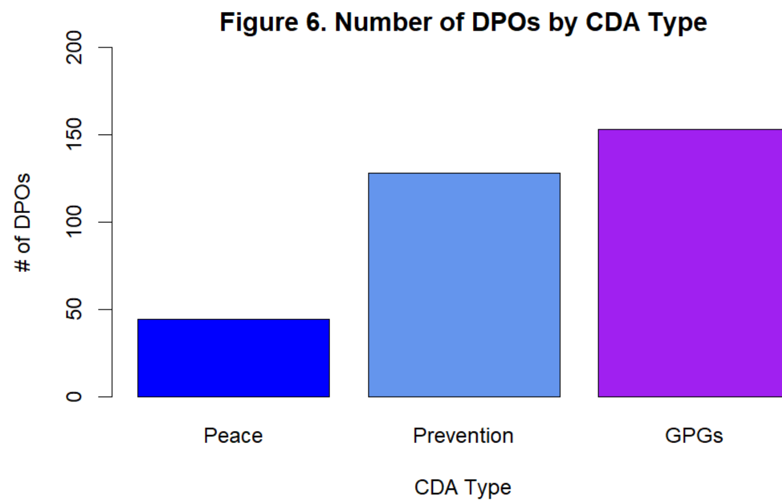
ii. CDA, exceptional finance, and compliance

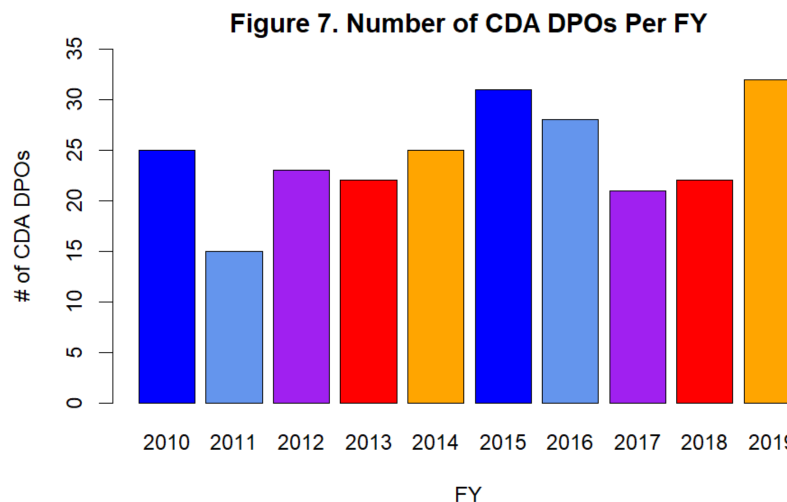
I turn next to summary statistics more directly relevant to the statistical analysis, namely the relative frequency of CDA and exceptional finance in DPOs, as well as the types of each variable that are more and less common. These data confirm three key dynamics. First, they show that both CDA and exceptional finance are used commonly enough to enable meaningful analysis. That is, there is sufficient variation on the dependent and independent variables. Second, they reveal that exceptional finance as operationalized here is, indeed, an infrequent, or exceptional, practice, but only if cross-portfolio conditionality is excluded. Third, and in-line with my theoretical expectations, the use of CDA by the World Bank has steadily increased over time, offering evidence for my contention that the promotion of peace, crisis prevention, and global public goods provision has become a leading institutional priority.

1. CDA

Looking first at CDA, I find that 244, or 41 percent, of all 595 DPOs during the period promoted CDA. As shown in Figure 6, global public goods provision represents the most common form of CDA, with 153, or 26 percent, of DPOs having conditions that promoted this action. Crisis prevention was the second most common form of CDA, with 128, or 22 percent, of DPOs promoting such reforms. Finally, 44, or 7.4 percent, of DPOs promoted actions to achieve or reinforce peace. These data show the World Bank has placed particular focus on global public goods provision and crisis prevention in recent DPO conditions, and that, while less frequently pursued, peace has been a focus of a non-trivial share of DPOs, as well.

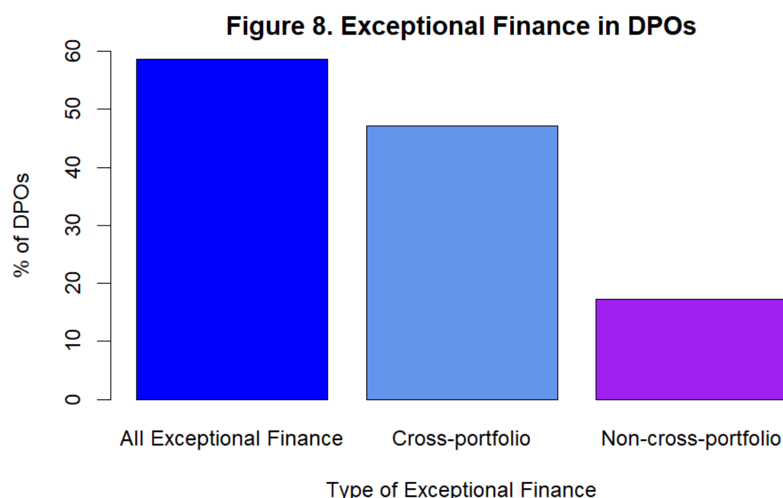
Importantly, the data reveal that the frequency of CDA in DPOs has increased across time. Figure 7 paints a somewhat ambiguous picture in terms of the trajectory of CDA frequency in recent years, but treating the ten-year analytical period as two halves reveals that DPO promotion of CDA has increased. From FY2010-2014, an average of 22 DPOs per year featured conditions that sought to advance peace, prevention, or global public goods. From FY2015-2019, the annual average increased by nearly a quarter, to 27. The increasing frequency with which World Bank DPOs promote CDA supports my argument that the focus IFIs placed on structural adjustment in the 1980s and 1990s has evolved over time to prioritize a broader range of costly actions, such as peace, prevention, and global public goods.





1. Exceptional finance

Turning to exceptional finance, the data reveal trends broadly consistent with my expectations but also highlight important considerations for the statistical analysis. First, fully 59 percent of DPOs from 2010-2020 have exceptional finance, as seen in Figure 8. On its face, the fact that more than half of all DPOs feature exceptional finance is concerning, since, by definition, exceptional finance is supposed to be a relatively infrequent occurrence. However, looking more closely at the data shows that this statistic is driven by cross-portfolio conditionality, which was present in more than 47 percent of all DPOs. When I strip away cross-portfolio conditions, only 17 percent of DPOs have exceptional finance, a figure consistent with my conceptualization of exceptional finance as a tool that IFIs only selectively use.



The fact that cross-portfolio conditionality appears in nearly half of World Bank DPOs over the analytical period is likely a consequence of conceptual 'stretching' (Sartori, 1970). Recall that, in the previous chapter, I conceptualized cross-portfolio conditionality as an approach in which IFIs condition aid for *any* of a recipient's preferred programs, whether existing or potential future ones, on its willingness to agree to, and comply with, a program that promotes CDA. The idea is that linking programs across a portfolio creates disincentives for a recipient to walk away from negotiations on CDA by preventing it from 'falling back' on existing preferred programs and preventing it from securing preferred programs in the future. I thus conceptualized cross-portfolio conditionality as a punitive form of exceptional finance that works by reducing the benefits the recipient can receive from its no-CDA deal reservation point.

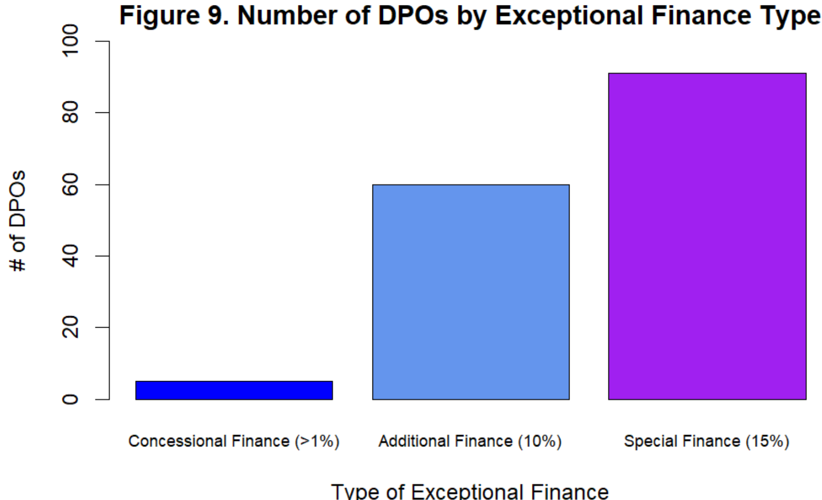
The challenge is that this conceptualization cannot be tested empirically, because IFIs have not formally used the approach.[33] This limitation led me to operationalize cross-portfolio conditionality as a non-final DPO in a programmatic series, with the idea being that recipients should comply more with DPOs when lack of compliance would result in the 'penalty' of not receiving the aid of future DPOs in the series. However, this operationalization stretches my conceptualization of cross-portfolio conditionality so much that it is no longer empirically exceptional. More importantly, my search for a testable measure evidently departs from the mechanism through which I argue exceptional finance does its heaviest lifting: leveraging rare, high-impact measures to shift recipient decisions on whether to undertake CDA. As a result, I do not include this crude operationalization of cross-portfolio conditionality in the statistical analysis, although I return in the concluding chapter to the importance of identifying more appropriate measures of stick-based forms of exceptional finance, which, I argue, can play an important role in inducing recipients to adopt costly action conditions.

[33] It is likely that IFI officials in some cases informally threaten to withhold finance for a recipient's priorities if it refuses to also adopt IFI priorities, but the fact that such arrangements are not codified in program documents precludes coding them and analyzing their effect on strategic interactions over IFI program conditions.

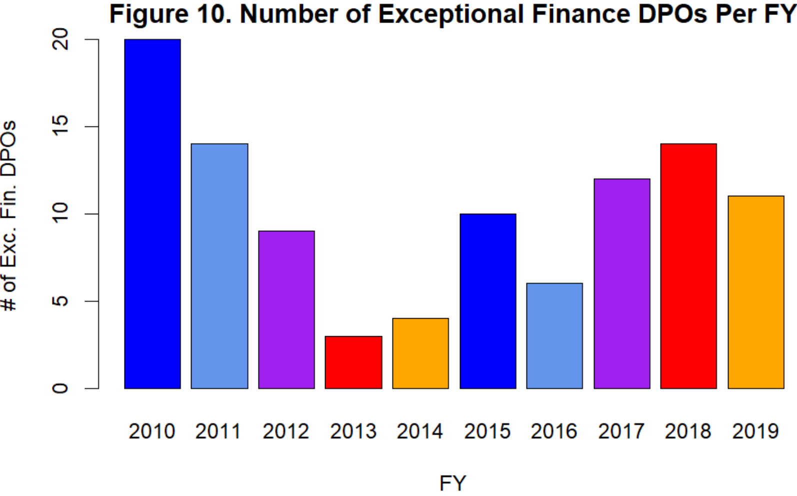
Moving on from cross-portfolio conditionality, the data offer insights into the prevalence of other forms of exceptional finance in World Bank programs from 2010-2019. Of the remaining categories, special and additional finance are the most commonly used, present in 15 and 10 percent of DPOs during the period, respectively, as shown in Figure 9. It is important to stress that there is significant overlap between these two categories, with IDA facilities like the Crisis Response Window, Window for Host Communities and Refugees, and Turn-around Regime representing special financial vehicles *and* additional finance that go beyond normal country allocations. Trust funds, which were also coded as special and additional finance, were used in five percent of DPOs but are present in 32 percent of special finance DPOs versus 48 percent of additional finance DPOs. This shows that non-trust fund forms of special finance, like CAT-DDOs and other *ad hoc* Bank facilities set up for specific, time-bound purposes, are more common than those of additional finance, like donor-backed guarantees. Importantly, the data show enough variation to treat special and additional finance as distinct types of exceptional finance.

Rounding out the categories of exceptional finance, we see that concessional finance – the use of lower-than-normal interest rates in World Bank programming – was by far the least common. Concessional finance was used in only 5 of 595, or less than one percent, of DPOs during the period. Despite the infrequency with which it was used, there is strong qualitative evidence that concessional finance can significantly affect recipients' willingness to undertake CDA. As explored in detail in the country case studies in chapters 6 and 7, the Global Concessional Financing Facility, which provides IDA-level concessional interest rates to middle-income IBRD members, has helped engender progressive refugee policies in countries that previously opposed such reforms. It is thus important to include concessional finance in the measure of exceptional finance used in the core analytical tests of my argument.

Figure 9. Number of DPOs by Exceptional Finance Type



Looking at temporal trends, Figure 10 shows that, similar to CDA, the World Bank's use of exceptional finance also became increasingly common during the period in focus. While an average of 10 DPOs per year featured exceptional finance from FY2010-2014, this is largely a product of the outlier of 2010, when the Bank approved 20 exceptional finance DPOs. As has been discussed, the Bank may have been unusually willing to deviate from institutional standards during 2010 to help countries rebound from the lingering effects of the global



financial crisis. This possibility is evidenced by the steep decline in the use of exceptional finance during the remainder of the first half of the analytical period. Indeed, the Bank only approved 7.5 exceptional finance DPOs on average from FY2011-20214.

During the second half of the period, by contrast, the number of exceptional finance DPOs was more consistent and higher than in the first half. From FY2015-2019, the Bank approved an average of 11 exceptional finance DPOs per year, with less dispersion than in the first half, suggesting a trend that reflected changing institutional standards rather than a response to a crisis event. This evidence offers support for a pillar of my theory. Not only has CDA become a higher World Bank priority over time: The data suggest the Bank may have used exceptional finance as a strategic tool to induce recipients to take those costly actions. This review of the summary statistics on CDA and exceptional finance provides evidence that the theory I built in the prior chapter is sufficiently plausible to warrant statistical analysis.

2. Compliance

Before turning to the statistical analysis, it is worth reflecting on the summary statistics on compliance. As noted, 495 of the 595 DPOs from FY2010-2019 had received a rating from IEG at the time of coding. Because the IEG rating is my measure of compliance, only these DPOs could

be coded for compliance. The data show recipients comply with programmatic conditions far more often than not, with IEG rating 74 percent – or nearly three-fourths – of DPOs as at least moderately satisfactory, as seen in Figure 11. One-fifth of DPOs were rated as moderately unsatisfactory, while only five percent were unsatisfactory.

The fact that IEG rated the vast majority of DPOs as at least moderately satisfactory is an interesting finding that runs counter to common portrayals in the existing literature. As seen in the review in the opening chapter, extant studies typically argue that recipients seldom comply with aid conditions, that IFIs often decline to enforce conditions they set, and that, even when

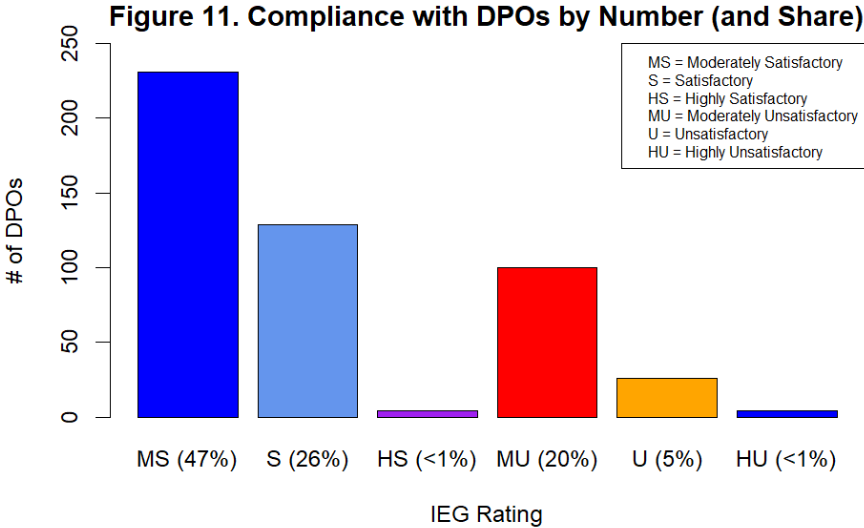


Figure 11. Compliance with DPOs by Number (and Share)

IFIs do seek to enforce conditions, they typically fail to induce compliance. These portrayals do not find empirical support in the data here. IEG ratings do not map fully onto compliance with DPO conditions, since other factors also affect IEG rating decisions. However, compliance serves as a key input into IEG evaluations of whether programs achieved stated objectives, because conditions are the main substantive benchmarks for which recipients are accountable. That recipients complied with conditions in nearly three-fourths of DPOs from FY2010-2019 casts doubt on the pessimism scholars express on the efficacy of conditioned reform.

Summary statistics from the coding of World Bank DPOs from FY2010-2019 show the following. First, there is reasonable consistency in the number and average financial size across the period, but certain outliers suggest there is utility in controlling for time in the statistical analysis. Second, the vast majority of countries took a small number of DPOs during the period, suggesting that there may not be enough within-country variation on the outcome variable to warrant country fixed effects but that clustering standard errors at country level may be useful. Third, as my theory anticipates, CDA and exceptional finance have become increasingly common in DPOs in recent years, and both variables appear frequently enough to enable

meaningful statistical analysis. Fourth, operationalizing exceptional finance to reflect core aspects of my theory, rather than stretching the concept to incorporate cross-portfolio conditionality, yields a measure that is sufficiently infrequent to be considered an exceptional practice. Finally, compliance is the norm, with three-fourths of DPOs having received a passing grade from the Bank's independent evaluator. With this basis, I turn next to the statistical analysis that serves as the first empirical test of my theory on the role of exceptional finance in inducing aid recipients to take CDA.

d. Analysis and results

i. Regression method

I use logistic regression to analyze the data, given the binary nature of my outcome variables. Logistic, or logit, regression shows how changes in the value of the independent variable affect the likelihood that the dependent variable will occur or not. Logit is not as readily interpretable as linear regression or simple difference of means tests. However, its results can be transformed to show the odds ratio, which compares the odds of the dependent variable occurring when a binary independent variable is absent, or coded '0', and when it is present, or coded '1'. That is ideal for the hypotheses I test through the statistical analysis, all of which have independent and dependent variables that take on the value of '0' or '1'.[34] As with other forms of regression, logit also allows to test for the statistical significance of analytical results, which shows the probability that the result is due to chance, with p-values less than ten or five percent conventionally considered statistically significant and reflecting a non-chance event.

I analyze the five hypotheses stemming from my theory that were discussed in the previous chapter. The primary hypothesis – and most direct test of my theory – is that recipient countries comply more often with CDA conditions when IFIs use exceptional finance. The dependent variable for this is coded as '1' or '0': '1' when a program promoted CDA *and* the IEG rating was 'Moderately Satisfactory' or better and '0' when one or both of these factors was absent. Outcome variables for other hypotheses are also binary. They include the presence of exceptional finance, the presence of CDA, and compliance with program conditions, as measured by the IEG rating.

I run the analyses with a number of specifications. These include the control variables discussed above, namely level of economic development, public debt, aid dependence, and social development. I also use fixed effects for fiscal year to control for sectoral trends across time that could affect my independent and outcome variables. Finally, I cluster standard errors at the country level. These specifications aim to ensure the robustness of my analytical findings.

[34] The exception are my control variables, which, aside from the temporal fixed effects, are continuous. However, this does not affect the analysis of my primary variables of interest.

ii. Summary of findings

I test different aspects of my argument by analyzing each of my hypotheses, recapped in Table 1 below. My most important theoretical claim is that IFIs' use of exceptional finance should leave recipients more likely to comply with CDA conditions they agree to. However, I also expect that exceptional finance will leave recipients more likely to *agree* to CDA in the first place. Other aspects of my argument assert that recipients should be less willing to comply with CDA DPOs than non-CDA DPOs when exceptional finance is not offered, and that IFIs should reserve the use of exceptional finance for DPOs that promote costly action, in view of the cost to institutional integrity they incur for deviating from standard practice. Analyzing each of these hypotheses provides a chance to test which parts of my theory stand up to empirical evidence, and which may need to be refined. Together, the analytical findings offer broad empirical support for my argument that IFI exceptional finance can help induce recipients to adopt CDA.

Table 1. Hypotheses and Indicative Results

Hypothesis	Indicative Result
H1. Recipients are more likely to agree to programs with costly development action when IFIs deploy exceptional finance than when IFIs do not.	Weakly supported
H2. IFIs are more likely to deploy exceptional finance for programs with conditions that promote costly development action than for programs with conditions that do not.	Supported
H3. Recipients are more likely to comply with the conditions of costly development action aid programs when IFIs use exceptional finance than when IFIs do not.	Supported
H4. Recipients are more likely to comply with conditions of programs where exceptional finance is used than conditions of programs where it is not.	Supported
H5. Among programs where exceptional finance is not used, recipients are less likely to comply with those that feature costly development action conditions than those that do not have costly conditions.	Not supported

Table 2 presents the findings of the statistical analysis for each of my five hypotheses, and I discuss the results sequentially below. I start with hypotheses 1 and 2, which focus on the first stage of strategic interaction, when recipients and IFIs are negotiating the substance and financial terms of aid agreements. While my theory is most interested in recipient decisions on whether to *comply* with CDA conditions, it also aims to identify the circumstances under which recipients initially *agree* to costly actions – irrespective of their ultimate compliance – and under which IFIs agree to offer exceptional finance. Here, I find support for my theoretical

Table 2. Analytical Results: Interaction between Exceptional Finance and Costly Development Action in World Bank DPOs from FY2010-2019

	Dependent Variables											
	Agreed to CDA (H1)		**Offered EF (H2)**		**Complied with CDA (All DPOs; H3a)**		**Complied with CDA (CDA DPOs; H3b)**		**Complied with DPO (H4)**		**Complied with non-EF DPOs (H5)**	
Independent Variables	*Odds Ratios*	*p*	*Odds Ratios*	*p*	*Odds Ratios*	*p*	*Odds Ratios*	*p*	*Odds Ratios*	*p*	*Odds Ratios*	*p*
Exceptional Finance (EF)**	**2.12**	**0.075**			**3.68**	**0.003**	**10.8**	**0.058**	**4.42**	**0.023**		
GNI Per Capita	1.00	0.953	1.00	0.854	1.00	0.922	1.00	0.615	1.00	0.874	1.00	0.810
GNI	1.00	0.061	1.00	0.714	1.00	0.088	1.00	0.723	1.00	0.827	1.00	0.562
Public Debt	1.00	0.918			1.00	0.653	1.01	0.461	1.02	0.034	1.02	0.079
Aid (% GDP)	1.01	0.687	1.02	0.657	1.03	0.378	1.09	0.310	1.07	0.201	1.09	0.163
Aid (% Public Spending)	1.00	0.650	1.01	0.307	1.00	0.946	0.99	0.296	0.99	0.363	0.98	0.284
Average Schooling	0.97	0.604	1.08	0.417	0.97	0.656	0.96	0.756	0.99	0.910	0.90	0.248
Life Expectancy	1.05	0.110	0.94	0.131	1.08	0.018	1.07	0.226	1.10	0.003	1.11	0.006
Costly Dev. Action			**2.78**	**0.014**							**-0.47**	**0.182**
Observations	265		262		265		104		253		224	

Notes: Main results for each of the hypotheses are emboldened; EF = exceptional finance

expectations. First, while the effect narrowly misses stringent conventions of statistical significance (p = 0.075), I find evidence that recipients are over two times more likely to agree to include CDA in their aid programs when IFIs offer exceptional finance in return. Second, I find IFIs are 2.78, or nearly three, times more likely to offer exceptional finance when recipients agree to costly conditions than for programs where CDA is not part of the deal, and that this result is significant at the 0.01 level. These findings indicate that, even before compliance comes into play, exceptional finance and CDA may influence strategic interaction over the content of aid conditions in a way that makes each variable more likely.

I turn next to the hypothesis that offers the most direct test of my argument, namely that recipients are more likely to comply with CDA programs when IFIs use exceptional finance. As described earlier in the chapter, compliance here means that the DPO features conditions that promote CDA *and* that IEG, the World Bank's independent evaluator, rates the program as at least moderately satisfactory. I test this hypothesis with two specifications. The first model tests the effect of exceptional finance on compliance with CDA conditions in the universe of all DPOs, meaning that it includes DPOs that did and did *not* feature CDA. I find that recipients are over three-and-a-half times more likely to comply with CDA when offered exceptional finance for the deal, and that this effect is strongly statistically significant (p = 0.003). This finding offers initial evidence that exceptional finance helps to induce compliance with costly action conditions.

The second model only includes programs that promote CDA. This offers the most direct test of my theory, because it looks exclusively at cases where recipients make explicit choices about whether to comply with CDA. Here, I find even stronger substantive support for my theory, with recipients more than ten times more likely to comply with CDA when exceptional finance is offered. Although it is weaker than in the first model, which included all DPOs, I also find that this effect is statistically significant (p = 0.058). This finding offers key, direct support for my theory. When recipients agree to undertake CDA, they are significantly more likely to comply with those commitments when IFIs use exceptional finance than when IFIs do not.

Hypothesis four tests the effect of exceptional finance on compliance in general, rather than compliance with CDA conditions in particular. The hypothesis expects aid recipients to be more likely to comply with program conditions – costly or not – when IFIs deploy exceptional finance, based on the argument that exceptional finance increases incentives to comply by adding benefits for doing so. Here, I find strong support for my theoretical expectation, with recipients some four-and-a-half times more likely to comply with aid programs when exceptional finance is offered, an effect that is highly statistically significant (p = 0.023). This finding is important because it suggests the effect of exceptional finance on recipient compliance with aid program conditions may operate not only in strategic settings where recipient and IFI preferences are misaligned but reasonably close, but also when those preferences are very similar or far apart. I did not develop my argument in a way that allowed me to code, or control, for these two latter settings, which precludes analysis of whether programs in one or both settings are helping to drive this supportive result, but this is something that future research could usefully explore.

Finally, hypothesis five explores whether recipients are less likely to comply with costly conditions than non-costly conditions in the universe of programs where exceptional finance is *not* offered. My theory expects recipients to resist CDA unless they are offered exceptional financial incentives, so I expect that when those incentives are absent, compliance should be less likely for costly programs than for programs that make less stringent demands. While the correlation between CDA and compliance is negative, as I expect, the result is not statistically significant ($p = 0.182$; log odds = -0.47). I can only conjecture why recipients seem no less likely to comply with costly conditions than non-costly conditions in the absence of exceptional finance, but it may be that IFIs are withholding exceptionality in these cases because the forms of CDA are less demanding than those for which they more readily offer exceptional incentives. Testing this empirically would require credible measures of gradations in costliness within the broader CDA category, which goes beyond the theoretical or coding work conducted for this analysis but could be taken up in future work.

e. Conclusion

The findings of the statistical analysis detailed above affirm my core theoretical expectations. They offer robust support for my central argument that IFI exceptional finance can help induce aid recipients to undertake CDA. The results imply that when recipient and IFI preferences are reasonably well aligned, deploying exceptional financial incentives can serve as a nudge for recipients to comply with aid conditions by offering benefits that outweigh the costs of doing so. Importantly, the evidence also suggests that using exceptional finance can allow IFIs to convince recipients to sign onto CDA conditions in the first stage of interaction, when recipients and IFIs are negotiating the substantive and financial terms that aid programs will include. Contrary to extant aid literature, which often conceptually and analytically overlooks variation in recipient preferences, the evidence here shows that aid recipients are often not resolutely for or against the policy reforms that IFIs propose. In some cases, IFI proposals exist in a middle range of recipient preferences where they can be swayed to choose these over other priorities if IFIs add benefits to sufficiently sweeten the pot.

Taken together, my findings have important implications for development policy. Most notably, they suggest that increased use of targeted deviations from IFI financial standards can help IFIs and donors better leverage aid to galvanize collective action to tackle the world's most pressing challenges. While solving daunting development problems like stemming global warming may require the supply of aid to be increased by orders of magnitude, my research suggests significant progress can be made via smaller, more calibrated use of existing aid, even on sensitive issues like stopping civil wars and hosting refugees. Second, and more broadly, the analysis in this chapter suggests that a rethink may be needed on the efficacy of aid conditionality. While the balance of existing literature casts doubt on the ability of IFI conditions to induce development outcomes, my findings show not only that conditioned aid programs succeed more than they fail, but that IFIs can strategically leverage financial inducements to further increase the probability that recipients will comply with policy conditions IFIs most strongly prioritize.

Despite these promising results, the analysis in this chapter also highlights important limitations of my argument, as well as outstanding questions that require further interrogation in the following chapters. Three limitations stand out. First, correlation is not causation: Even as the analysis found substantively and statistically significant correlations between the independent and dependent variables in most of my hypotheses, this does not mean exceptional finance has a causal effect on the willingness of recipients to agree to, or comply with, CDA conditions. Indeed, there could be unobserved variables that are correlated with the independent variable and error term and that may also have their own effect on the outcome variable. Failing to control for these variables could lead to false positive errors and erroneous conclusions that overstate the effect of exceptional finance on costly development outcomes.

Second, while my analysis focuses only on DPOs, which are the Bank programs most directly linked to policy reforms, conditions are also tied to other types of Bank lending, like investment project financing. Investment financing requires recipients to undertake specific conditions in order for the project to officially begin, or 'become effective', and for the Bank to make its first disbursement into the recipient's account. Ignoring investment project conditions risks excluding a universe of cases whose inclusion may yield different results on the efficacy of exceptional finance in inducing costly reform. This concern is mitigated, however, by the fact that investment conditions tend to be mechanical, rather than policy-based, in nature, often requiring recipients to, for example, finalize terms of reference for staff in project management units and comply with the Bank's environmental and social safeguards. Because effectiveness and disbursement conditions in investment financing seldom deal with the type of sensitive policy reforms that DPOs do, their exclusion from the statistical analysis is unlikely to bias my findings on the effect of exceptional finance on recipient willingness to engage in costly actions.

Third, beyond the issues related to cross-portfolio conditionality discussed earlier, there is another concern related to conceptual stretching of the independent variable that my analysis does not address. My argument is motivated by the effect of concessional finance on recipient decision-making, which I expect to be the most effective form of exceptional finance because it directly cuts the cost of loans by reducing the interest rate charged to lower-than-normal levels. However, the Bank has not used concessional finance frequently enough for it to serve as the basis of statistical analysis on its own. This required me to stretch the concept of exceptionality to include other forms, such as additional finance, like targeted IDA windows, and special finance, which includes *ad hoc* measures like trust funds. While this stretching required a departure from the 'purest' form of exceptional finance that I expect to influence the cost-benefit calculus of aid recipients, those that remain still reflect the core mechanism that I expect to drive recipient decisions: reducing the opportunity cost of taking CDA.

In the next chapters, I seek to address the limitations discussed above through additional methodological approaches. In chapter 5, I use a regression discontinuity design that leverages the arbitrary income cutoff between IDA and IBRD members to assess whether the greater access the former have to exceptional financial assistance leads them to adopt more CDA. Because countries 'near' but on different sides of the income threshold are in expectation

identical on covariates likely to affect willingness to adopt costly reforms, observed differences in across-group uptake of CDA could be causally linked to the fact that one group has access to large pots of exceptional finance under IDA while the other does not. In chapters 6 and 7, I use qualitative case studies to assess how access to exceptional finance has affected aid recipient CDA decisions in specific country contexts, with a focused look at the role of concessional finance, which was more difficult to study in the statistical analysis. Together, this mix of quantitative and qualitative analysis aims to complement the statistical analysis in this chapter to identify whether exceptional finance has a causal role in CDA in foreign aid recipients.

5. Regression Discontinuity Design: Testing the Efficacy of IFI Exceptional Finance through a Design-based Approach

This chapter uses regression discontinuity design (RDD) to analyze whether IFI exceptional finance has a causal effect on developing country decisions to take costly development action (CDA). To gain causal leverage, I use the arbitrary cutoff in per capita gross national income (GNI) that plays a key role in determining whether countries are members of the World Bank International Development Association (IDA) or International Bank for Reconstruction and Development (IBRD). Despite being similar on other covariates, countries with incomes just 'below' the cutoff line have a significantly higher probability of being IDA members than those with per capita incomes just 'above' the cutoff, which are significantly more likely to be in IBRD. Crucially, while IDA countries can pursue eligibility for exceptional financial facilities that incentivize the CDA of peace, crisis prevention, and global public goods, IBRD countries lack access to these exceptional resources.[35] My expectation is that countries just below the IDA threshold will be more likely to conduct CDA than those just above the threshold due to their greater access to exceptional finance through IDA facilities. Using three different analytical approaches within a broad RDD framework, the evidence I find is generally unsupportive of this expectation, but the results also suggest that this analysis is not decisive and that future work should seek to address factors that may be driving these findings, especially the high share of countries that remain in IDA after their income crosses the threshold, as I discuss below.

Because IDA countries near the income threshold can more readily access exceptional finance than IBRD countries near the threshold, assignment to the treatment of access to exceptional finance is as good as random. The as-if random assignment of access to IDA exceptional finance for countries near the income threshold offers an opportunity to conduct a 'fuzzy' RDD to assess whether that treatment has a causal effect on these otherwise similar countries' decisions on undertaking CDA. The analysis is fuzzy because a country's position relative to the IDA income cutoff only probabilistically determines whether it is an IDA or IBRD member, rather than fully determining assignment, as in 'sharp' RDD. Instead, membership is also shaped by other factors, including measures of creditworthiness and social development. Still, I show empirically below that a country's position relative to the IDA income cutoff significantly predicts IDA and IBRD status near the cutpoint, helping to uphold the internal validity of the fuzzy RDD setup.

To account for debates in the literature, I implement my fuzzy RDD in two ways. Both use instrumental variables analysis, which are seen as indistinguishable from efforts to identify the effect of treatment in fuzzy RDD settings (Dunning, 2012). The first method uses simple

[35] It is important to stress that, while IDA has established facilities that provide exceptional finance to pursue these actions, countries must still meet additional eligibility criteria – such as number of refugees hosted or number of conflict-related fatalities experienced – and complete papers and other processes in order to access them. Thus, while IDA membership gives you a greater chance to become eligible for exceptional finance, it does not guarantee that access, and in practice, use of exceptional finance among IDA countries remains rare, as the descriptive data in the previous chapter suggests.

difference of means tests for countries in the neighborhood of the IDA income cutoff, adjusting for the 'compliers' that took the treatment when assigned to do so and the 'always-treats' that took treatment even though assigned to control. The second uses a two-stage, least squares (2SLS) regression method, which some have argued offers a less biased estimator of the causal of treatment at the relevant threshold (Imbens & Lemieux, 2008).

This second strategy follows Adam and Tsarsitalidou (2020), whose '[f]uzzy RDD uses a simple 2SLS estimation strategy' that leverages 'the discontinuity in the probability of treatment, when the GNI is below and above the operational threshold…[as] an instrument for treatment status (p. 12). I follow this approach in my 2SLS analysis. Conducting my RDD through both a difference of means and 2SLS analysis allows me to mitigate the risk that the results will be contingent on a particular approach, while also adopting the approach used in the existing published work that most closely resembles my topic.

I also conduct a third, quasi-design-based type of analysis that departs from standard RDD approaches but allows direct comparison of most-similar IDA and IBRD countries near the income cutoff. In this approach, I analyze costly development outcomes for a small subset of countries that 'graduated' from IDA to IBRD during the analytical period of fiscal year (FY) 2010-2019. By comparing the same country at different points in time, this same-country counterfactual approach allows me to directly compare CDA outcomes for IDA and IBRD countries that are almost assuredly identical on all development covariates aside from access to exceptional finance through IDA. While this approach results in a loss of external validity, that tradeoff is inherent to all RDD set-ups, and I conclude that analyzing a small set of same-country IDA and IBRD counterfactual countries usefully complements and helps address shortcomings of the difference of means and 2SLS approaches.

One interesting and theoretically relevant finding in my analysis is the high share of countries that remained in IDA after their incomes crossed the income threshold. Rather than being regrouped into IBRD, nearly every country near the threshold with an income above the cutoff continued to be an IDA member and thus received the treatment of access to IDA exceptional finance. The extremely high share of these 'always-treats' calls into question the validity of the IDA income cutoff as an instrument for IDA status. Adam and Tsarsitalidou (2020) address this challenge by using 2SLS analysis that shows that the income cutoff is generally predictive of IDA and IBRD status, and the 2SLS analysis I run finds similar results (p. 16). While this helps alleviate concerns about the appropriateness of the instrument, the high share of countries that retain access to IDA exceptional finance after their income exceeds the threshold may have in part driven the unsupportive analytical results, a topic to which I return later in the chapter.

Leveraging the IDA income threshold for RDD analysis provides an innovative method to analyze the causal effect of exceptional finance on developing country decisions on whether to undertake CDA. To my knowledge, this analysis is the first of its kind. Earlier work published by Adam and Tsarsitalidou (2020) used the IDA threshold to examine the effect of 'normal' (i.e., non-exceptional) IDA finance versus IBRD resources on different forms of civil conflict, and, as

noted, I follow their 2SLS approach in one of my RDD analyses. However, to date, no study has leveraged the IDA cutpoint to analyze the effect of IDA exceptional financial facilities on inducing aid recipients to take the costly actions these facilities were created to promote. Usefully for my analysis, those actions align with the CDA outcomes of interest to my study, namely peace, prevention, and global public goods.

The analysis in this chapter makes multiple contributions. First, it provides causal leverage on the central question of my dissertation: whether the offer of IFI exceptional finance can induce aid recipients to take CDA. Second, it makes an important methodological contribution to scholarship on international development by building on the pioneering work of Adam and Tsarsitalidou (2020) to show how the IDA income cutoff can be leveraged for design-based research on the causal effects of different types of aid provision. Third, the chapter contributes to live debates on development policy by providing evidence on whether, when, and how the strategic 'bet' of deviating from standard financial practices can successfully induce sought-after reform. These lessons can help IFIs, bilateral donors, and other policymakers better target aid to help countries achieve mutually desirable development outcomes.

The chapter proceeds as follows. Adding detail to the overview in chapter 2, I first discuss the process by which the World Bank sorts countries into its IDA and IBRD constituent institutions and outline recent financial innovations the Bank has made to incentivize members to engage in the CDA of peace promotion, crisis prevention, and global public good provision. In the third and fourth sections, I detail the set-ups and present results for the difference of means and 2SLS RDD approaches, clarifying the research question, dependent and independent variables, hypotheses, and analytical steps taken, as well as offering evidence on the internal validity of the designs. The fifth section describes and presents results for the same-country counterfactual approach. The final section draws conclusions, addresses remaining questions and potential concerns about the analysis, and highlights implications of the chapter's findings for my theoretical argument and development practitioners.

a. IDA and IBRD classification and financial innovation

As described in chapter 2, the World Bank groups member countries into two constituent institutions, IDA and IBRD. IDA is designed to support the world's poorest nations, while IBRD seeks to support better off, but still developing, middle-income members. Classification into IDA and IBRD is based in part on an arbitrary cutoff in per capita GNI that the Bank resets each year.[36] The income cutoff is not determinative: Countries below it are not automatically IDA members, nor are countries above it automatically IBRD. However, as I show in section 4, countries with income just below the cutoff are significantly more likely to be in IDA, while those just above the cutoff are more likely to be in IBRD.

[36] In FY23, the IDA income cutoff was per capita GNI of $1,255.

A country's IDA or IBRD status bears importantly on the financial terms it receives from the World Bank for development programs. IDA countries receive concessional, no-interest loans or non-repayable grants for Bank-financed programs: This is 'normal' IDA finance. Crucially for my study, IDA membership also gives countries access to exceptional financial facilities like the Prevention and Resilience Allocation and Turn Around Allocation (TAA); Crisis Response Window (CRW); and Window for Host Communities and Refugees. These facilities offer volumes of finance that exceed countries' normal IDA allocations to incentivize them to, respectively, adopt programs that promote peace, prevention, and global public goods. IBRD countries, by contrast, lack access to these exceptional financial incentives.

At one level, the provision of exceptional financial assistance to IDA countries makes sense. There is marked variation in the economic development and financing needs of certain IDA and IBRD members. Liberia has a per capita GNI of $630, is one the world's poorest countries and very much needs the grants to which it has access as an IDA member (World Bank, 2023e). China, by contrast, has a per capita GNI of $11,880, enjoys ready access to domestic resources, and can easily repay non-concessional IBRD loans. Given their starkly different levels of development and repayment capacity, there is clear logic for the World Bank to offer Liberia finance on cheaper terms than China and to make available exceptional financial provisions to which China as an upper-middle-income IBRD member does not have access.

In the neighborhood of the income cutoff, however, the distinction between IDA and IBRD members falls away. For countries near the threshold, selection into IDA or IBRD is as good as random: IDA countries just below the cutoff do not differ significantly from IBRD countries just above the cutpoint on non-income covariates – like institutional strength, economic dynamism, and social development – that also shape World Bank decisions on which institution to sort them into. These are also variables that might be expected to drive countries' agreement to, and compliance with, IFI conditions; their similar development profiles thus means that, all else equal, IDA and IBRD members near the cutoff should respond similarly to the conditions IFIs seek to impose. In expectation, the lone difference between countries near but on different sides of the cutpoint would be their access, or lack of access, to the exceptional financial incentives certain countries enjoy due to IDA membership. This creates an opportunity to leverage a design-based analytical approach in the form of a fuzzy RDD to identify the causal effect of access to IFI exceptional finance on the decisions of countries near the IDA income threshold to engage in the CDA of promoting peace, crisis prevention, and global public goods.

b. Difference of means

In this section, I implement my fuzzy RDD through a difference of means approach. This set-up estimates the causal effect of access to IDA exceptional finance on CDA through a simple algebraic comparison of CDA outcomes for members above and below the cutoff that comply with treatment assignment. I start by introducing the question and data, the dependent and independent variables, and my hypotheses. These analytical components largely apply to both the difference of means analysis discussed in this section and the 2SLS approach discussed in

the next, though I note differences where they exist. Finally, I set out the analytical steps used to implement the difference of means tests and present my results.

a. Question and data

My RDD seeks to answer the following question: In the neighborhood of the IDA income cutoff, are IDA countries more likely to undertake CDA than IBRD countries? As with the analysis in chapter 4, I explore this question through World Bank development policy operations (DPOs). DPOs condition finance on the adoption of reforms: If recipients adopt specified reforms, the Bank injects finance into their budgets; if they do not, the Bank in theory withholds its aid.[37] These programs thus provide the most direct vehicle to assess whether countries agree to adopt policy reforms, including those promoting the CDA of peace, crisis prevention, and global public goods, and whether they ultimately fulfill those commitments.

I draw on DPO data from the same time period, FY2010-2019, for the RDD as for the analysis in chapter 4. This period is analytically advantageous for several reasons. First, it covers the period during which IDA began to introduce a holistic suite of exceptional financial facilities to incent costly actions, namely the TAA and Risk Mitigation Regime (RMR) for peace promotion; CRW for crisis prevention; and the Regional Sub-Window for Refugees and Host Communities (RSW) for global public goods.[38] Third, at the time of coding the DPO data, IEG, the World Bank's independent evaluator, had yet to rate most of the DPOs agreed from FY20 onward, which rendered these programs incapable of serving as an input to my dependent variable.[39] Focusing on DPOs from FY2010-2019 thus provides a useful approach to test the effect of the World Bank's strategic 'bet' that offering a wide range of exceptional financial inducements would significantly increase recipient countries' willingness to adopt costly reforms that the Bank, other IFIs, and key donor countries deemed top development priorities.[40]

Each observation is a DPO agreed during the analytical period, meaning only countries that agreed to DPOs are included in the analyses. There were 595 DPOs during the period, of which 495 had received an IEG rating at the time of coding. The DPO data are the same as those used for the analysis in chapter 4, with important additions. For each observation, I code whether the country was in IDA or IBRD during the year the DPO was agreed. I also code for the country's per capita GNI with a two-year lag, because World Bank management decisions on whether to group the country as IDA or IBRD are based on its per capita GNI two calendar years

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[37] As noted in the Introduction, scholars have found the Bank and other IFIs routinely fail to enforce conditions.
[38] The RMR and RSW have more recently become, respectively, the Prevention and Resilience Allocation and Window for Host Communities and Refugees under IDA19. The TAA, for its part, was previously known as the Turn Around Regime. The facilities retain the same core logic, objectives, and design they had under their other names.
[39] There is no reason to believe that uncoded and coded programs differ systematically. It simply takes IEG several months, and sometimes years, to code programs after they close. Many programs launched in FY20 and later were still active as I coded, and IEG was still completing its evaluation even for several programs that had already closed.
[40] The establishment of the CRW Early Response Financing facility (ERF) under IDA19 as a dedicated mechanism to incentivize crisis prevention rounded out the IDA facilities aimed at inducing costly action from recipient members. However, IDA19 began in FY2021, and IEG had not yet rated programs from this year at the time of coding.

before: A country's IDA or IBRD status in FY2010 would take into account its per capita GNI in calendar year 2008.[41] I then use the IDA income cutoff for each fiscal year[42] in the period to calculate the difference between the cutoff and each observed country's per capita GNI for that year: For example, Cabo Verde's per capita GNI was $3,080 in calendar year 2017, while the FY2019 IDA cutoff was $1,145, yielding a difference of $1,935 for that observation (IDA, 2019). As detailed below, these 'distances' allow me to generate populations of observations in the neighborhood of the IDA cutoff for each year in the analytical period, which then allows me to define study groups for my RDD analyses.

b. Dependent variable

I operationalize the dependent variable of CDA in two ways, which remain constant across the three analytical approaches. I look first at whether a DPO promoted CDA, which I refer to as CDA 'agreement'.[43] This is a binary outcome variable that takes the value of '1' if the DPO promoted CDA and '0' if it did not. Second, I look at 'compliance', namely whether countries ultimately complied with the conditions of costly DPOs to which they agreed; this is the most important test of my theory, since agreeing to costly development reforms may be cheap talk but actually carrying those reforms out requires greater commitment. My argument expects that countries just below the IDA income threshold will be significantly more likely to agree to, and comply with, CDA than those just above the threshold, due to their access to the exceptional financial facilities IDA has created to incent costly action.

c. Independent variable

I operationalize the independent variable as access to IDA's exceptional financial facilities. Because all IDA members in theory have access to these facilities if they meet facility-specific requirements,[44] this in effect makes the independent variable, or 'treatment', IDA membership itself. This approach may seem inferior to measuring treatment as actual receipt of exceptional finance. Such an operationalization would be consistent with the statistical analysis in the prior chapter, where inclusion of exceptional finance in DPO funding packages served as the independent variable. This set-up would estimate the average treatment effect of receiving exceptional finance on recipient decisions to adopt CDA reforms.

In the RDD approaches I employ, however, operationalizing treatment as receipt of IFI exceptional finance would not offer benefits commensurate with the costs to analytical simplicity. Using access to IDA facilities as the treatment, as I propose, allows a one-step

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[41] The World Bank FY runs from July 1-June 30. FY2010 thus starts in calendar year 2009. This precludes using GNI data from 2009 for the decision on whether to sort a country as IDA or IBRD in FY2010. Hence the two-year lag.

[42] World Bank management resets the IDA income cutoff annually, as noted above.

[43] See the prior chapter for an extensive discussion of how I code programs for promoting CDA.

[44] For example, to access the IDA Window for Refugees and Host Communities, a country must be hosting a certain number of refugees, must have an adequate refugee protection framework, and meet other requirements, while to access the CRW, a country must face a crisis. But IDA membership serves as the *sine qua non* eligibility criterion.

analytical move from a country's position relative to the IDA income cutoff to that country's outcomes on CDA. Using receipt of exceptional finance as the treatment would require a more complicated, 'doubly fuzzy' RDD, where the IDA cutoff serves as a first probabilistic determinate of access to exceptional finance, and that access then serves as a second probabilistic determinate of exceptional finance receipt. Another approach would be to use a country's position relative to the cutoff to instrument for receipt of IDA exceptional finance, without factoring its IDA or IBRD status into the analysis, but this is not what I want to know: Instead, I want to know if IDA status, and the access to exceptional finance it entails, leaves countries more likely to agree to, and comply with, costly development programs. The two alternative operationalizations of the independent variable described above would entail extra steps or 'leaps' that reduce analytical clarity.

My approach of operationalizing the independent variable as access to IDA exceptional finance also offers benefits for theory and policy. My dissertation seeks to understand both the general question of whether the offer of exceptional finance helps induce costly action and the more specific policy question of whether the World Bank's recent strategic bet to use exceptional finance to induce reforms that promote its top development priorities has succeeded. These questions are best answered via RDD approaches that focus on access to IDA exceptional finance – rather than receipt itself – and thus enable analysis of whether the mere *offer* of access to exceptional financial facilities, regardless of uptake, induces more of the costly outcomes that IFIs, and the World Bank specifically, care about. While not analytically identical, this approach has conceptual similarities to the intention-to-treat strategy that Dunning (2012) notes 'is often relevant for policymakers as well as social scientists' since it enables estimates of how much eligibility for an intervention contributes to desired outcomes, irrespective of the level of treatment receipt (p. 135).[45] Operationalizing treatment as receipt of exceptional finance, by contrast, would bypass this question and analyze the effect of exceptional finance on CDA only for countries that decided to use it. This would offer a less direct test of my argument about the effect of offers of exceptional finance on recipients' decision-making on CDA and reveal little to policymakers seeking to assess whether strategic deployment of exceptional finance through IDA has effectively induced costly action from aid recipients.

It is important to note that not all IDA countries need or make use of the exceptional financial facilities to which they potential have access. Not all IDA countries face the challenges that IDA exceptional facilities were created to address. Many countries lack exposure to conflict, crisis risks, or refugee inflows, obviating the need for the CRW, RMR, and RSW, respectively, while few experience the dramatic political, social, or economic turnarounds that would lead them to tap the TAA. Even some IDA countries that do face these challenges elect not to pursue the exceptional finance to which they have access. Indeed, despite having greater potential access to exceptional finance than IBRD countries do, the use of exceptional finance among IDA countries remains rare. The descriptive statistics in chapter 4 showed that only 17 percent of all

[45] I do calculate intention-to-treat estimates later in the chapter, but it does not involve measures of receipt of exceptional finance. I use the conceptual analogy above simply to highlight the merit of operationalizing treatment as access to, rather than receipt of, exceptional finance.

DPOs between fiscal years 2010 and 2019 featured exceptional finance. Sub-setting the data by IDA and IBRD reveals that only slightly more than one-fifth of IDA DPOs – 22 percent – feature exceptional finance, whereas the figure for IBRD country DPOs is 14 percent. As discussed extensively in chapter 3, and as illustrated in the case studies in chapters 6 and 7, some countries are simply unwilling to adopt the costly reforms that exceptional finance seeks to compel. Moreover, the fact that gaining eligibility to IDA exceptional financial facilities requires extensive paperwork and slows down the process of designing and approving projects, some countries opt to forego these added barriers and simply use 'normal' IDA finance. My argument is a probabilistic rather than a deterministic one: Offers of exceptional finance are not always taken up, even by IDA members.

A key benefit of the RDD approach is that it helps offset risks that might be created by the fact that many IDA countries do not utilize the exceptional financial facilities to which they have access. One concern stemming from the non-use of IDA exceptional finance by a subset of IDA members in the neighborhood of the income threshold is that there is something that distinguishes these non-users from other countries in the study groups, both fellow IDA members as well as IBRD counterparts. While this risk cannot be fully mitigated, the fact that these countries are so close in income and share such empirically similar development profiles suggests that the distribution of risks related to conflict, crisis, and global public bads, as well as 'innate' opposition to CDA, is evenly distributed near the cutoff.

d. Hypotheses

I test four hypotheses in the analysis. Hypotheses 1-2 estimate the effect of access to IDA exceptional finance on countries just below and just above the cutpoint. This is intention-to-treat analysis, since it does not account for countries just below the cutpoint that may be IBRD members, hence not eligible for IDA exceptional finance, or the (many) countries just above the threshold that nonetheless remain IDA members and retain access to IDA's exceptional facilities. Intention-to-treat analysis provides a useful 'first cut' measure of the effect of exceptional finance and is in some ways preferable because it is least likely to be affected by outside factors that could lead World Bank management to group countries near the threshold in IDA or IBRD political-strategic, rather than technical, reasons, a concern I return to in the chapter's conclusion. However, intention-to-treat analysis also tends to give a conservative estimate of average treatment effect, because it includes measures of countries that received treatment despite being assigned to control, which, as we will see, was common in my analysis (Dunning, p. 138). As such, hypotheses 3-4 focus on the complier average causal effect, which estimates the effect of exceptional finance on countries that comply with their treatment assignment, namely countries below the income cutoff that are IDA members and countries above the threshold that are in IBRD. Together, this intention-to-treat and complier average causal effect analysis offers a robust picture of the effect of access to exceptional finance on World Bank member countries near the IDA income cutoff.

Intention-to-treat

H1. Countries just below the IDA income threshold are more likely to agree to CDA programs than countries just above the income threshold.

H2. Countries just below the IDA income threshold are more likely to comply with CDA programs than countries just above the income threshold.

Complier average causal effect

H3. IDA countries just below the IDA income threshold are more likely to agree to CDA programs than IBRD countries just above the income threshold.

H4. IDA countries just below the IDA income threshold are more likely to comply with CDA programs than IBRD countries just above the income threshold.

e. Analytical steps

Before moving to analysis, I need to define my study groups. RDD analyses are not interested in the full population of observations from the data. Instead, as described above, they seek to identify a subset of observations near the cutpoint that can plausibly serve as valid counterfactuals for each other. Doing so makes it possible to address the fundamental problem of causal inference, which is that it is only possible to observe potential outcomes for a unit under treatment or control, but never both. By establishing a set of units that in expectation have similar potential outcomes, it becomes possible to make unbiased estimates about the average causal effect of treatment on units in the study group.

While there is a broad literature proliferating on bandwidth choices in RDD analysis, there is no precise way to define an optimal bandwidth around the cutpoint in which units can be confidently assumed to be valid counterfactuals for each other on outcomes of interest (Calonico, Cattaneo, & Farrell, 2020; Imbens & Kalyanaraman, 2012; Kettlewell & Siminski, 2022). As such, my analysis relies on a series of approaches common in the literature. First, I use the 'rdbwselect' command in the 'rdrobust' package in R, statistical software that uses algorithms to propose optimal bandwidths for the given data (Calonico, Cattaneo, & Titiunik, 2015). This provides a dollar amount on each side of the IDA income cutpoint within which countries can be considered valid counterfactuals, which I then use to define the study group. However, to ensure my findings are robust, I also run the analyses with study groups derived from other, *ad hoc* bandwidths, namely countries with incomes +/- $100, $250, $500, $750, and $1,000 from the IDA cutoff.

Having defined the study groups, using instrumental variables analysis to conduct difference of means tests in a fuzzy RDD set-up next requires defining the types of countries within these study groups. There are three types of study group subjects in this RDD approach: compliers,

always-treats, and never-treats (this section draws on Dunning, 2012; pp. 134-154). Compliers accept treatment if assigned to treatment and reject it if assigned to control, and vice versa. In this study, compliers are countries with an income below the IDA income threshold that are, in fact, IDA members and thus have access to IDA exceptional finance facilities, as well as countries with an income above the threshold that are IBRD members and lack access to exceptional IDA facilities. Always-treats are subjects that get treatment regardless of whether they are assigned to treatment or control. These are countries with incomes above the IDA threshold that are nonetheless IDA members, hence have access to exceptional finance facilities. Never-treats are countries that have incomes below the IDA threshold but are members of IBRD.[46]

In fuzzy RDD difference of means analysis, but not 2SLS set-ups, the parameter of interest is the average causal effect of treatment for compliers, sometimes referred to as the local average treatment effect. In my study, this parameter estimates the average effect of access to IDA exceptional finance on CDA outcomes for countries below the threshold that are IDA members and countries above the threshold that are IBRD members. The logic is that complier countries are better counterfactuals for each other than compliers and always-treat countries, which are assigned to control but still get treatment. The formula for estimating the causal effect for compliers is expressed in Equation (1) below:

$$\frac{Y^T - X^T}{X^T - X^C} \tag{1}$$

Y^T refers to the average outcome on the dependent variable for all countries in the study group that had incomes below the IDA cutoff and were thus assigned to the treatment of IDA membership and access to IDA exceptional financial facilities, regardless of whether they complied with treatment assignment. X^T refers to the average outcome for countries in the study group that had incomes above the IDA cutoff and were thus assigned to the control of IBRD membership, again regardless of whether they complied with assignment. The numerator thus expresses the intention-to-treat parameter. This estimate is useful but tends to offer conservative estimates of the average causal effect of treatment since it does not account for potential crossover across subject types. In my study, that would mean not accounting for always-treat countries that were IDA members despite having incomes that exceeded the IDA threshold or never-treat countries that were IBRD members despite having incomes below the IDA threshold.

The denominator corrects for crossover by estimating the share of compliers in the study group. Again, these are countries that were IDA members when their income was below the

[46] As is standard for fuzzy RDDs and instrumental variables designs, I assume there are no defiers, that is, countries that take treatment when assigned to control and reject treatment when assigned to treatment.

income threshold and IBRD members when their incomes exceeded the threshold. This share is estimated by subtracting the share of always-treats in the control group – X^C – from the share of compliers in the treatment group – X^T. Countries in X^C were assigned by income level to the control of IBRD membership but nonetheless got the treatment of IDA membership; countries in X^T were assigned to the treatment of IDA membership and are, indeed, IDA members. Instrumental variables analyses typically need to leverage the logic of random sampling to estimate the share of study group compliers, but because I have coded DPOs for the full study group, I can derive the values of the variables in Equation (1) directly from the data.

f. Results

This subsection presents results for the difference of means RDD analysis. While the results are nuanced, I do not find evidence that access to exceptional finance makes countries more likely to adopt costly aid conditions. In bandwidths nearest the IDA income cutoff, the high number of always treats – countries that receive access to IDA exceptional finance despite having incomes above the cutoff – produces results that run counter to my expectations. This finding moderates, especially for compliance, in the optimal bandwidth and in bandwidths further from the cutoff, as the share of always-treats declines, but the results remain unsupportive of my expectations. These findings do not lend support to my argument on the importance of exceptional finance in shaping decisions on costly action, but they do suggest that additional analysis that better accounts for always-treats would prove useful, as I discuss further below.

Table 1 shows results for the difference of means analyses for all selected bandwidths around the IDA income cutoff. For each operationalization of the dependent variable – agreement to, and compliance with, CDA programs –, I run analyses with several bandwidths. These include an optimal bandwidth generated by statistical software, which yields a study group of countries with incomes +/- $610 below and above the income cutoff. In addition to the optimal bandwidth, I run analyses for alternative bandwidths of +/- $100, $250, $500, $750, $1,000 from the cutoff. The table shows average outcomes on the dependent variable for countries assigned to treatment and control, which reflect the share of countries that agreed to, and complied with, a CDA program during the analytical period. The share of compliers and always-treats in each study group is also shown. Finally, the table shows the parameters of interest: intention-to-treat and average causal effect of treatment on compliers.

Beginning with the first operationalization of the dependent variable – agreement to undertake costly development conditions in a World Bank DPO –, the results surprisingly show that access to IDA exceptional finance leaves countries that comply with their treatment status less likely to agree to CDA. This effect generally weakens as the bandwidth – and, with it, study group size – becomes larger. In the tests that use the optimal bandwidth generated by statistical software, the analysis finds that access to treatment has a causal effect of -19 percent on compliers. The alternative bandwidths show similar results, with the negative effects exceeding 70 percent in the two narrowest bandwidths and then moderating considerably as the study group becomes larger, falling to -14 percent for observation in the bandwidth within $1,000 of the cutoff.

Table 1. Results from Difference of Means RDD Analyses[47]

Dependent Variable	Bandwidth	Observations	Average Outcome: Assigned-to-Treatment	Average Outcome: Assigned-to-Control	Share of Compliers	Share of Always-Treats	Intention-to-Treat	Average Causal Effect for Compliers
Agreed to CDA	Optimal	177	0.33	0.46	0.68	0.98	-0.13	-0.19
Agreed to CDA	$100	39	0.10	0.47	0.51	1	-0.37	-0.73
Agreed to CDA	$250	87	0.11	0.49	0.49	1	-0.37	-0.76
Agreed to CDA	$500	142	0.26	0.46	0.61	0.98	-0.21	-0.34
Agreed to CDA	$750	240	0.28	0.45	0.73	0.92	-0.17	-0.23
Agreed to CDA	$1,000	268	0.33	0.43	0.72	0.85	-0.10	-0.14
Complied with CDA	Optimal	177	0.20	0.23	0.68	0.98	-0.03	-0.04
Complied with CDA	$100	39	0.05	0.26	0.51	1	-0.21	-0.42
Complied with CDA	$250	87	0.07	0.23	0.49	1	-0.16	-0.33
Complied with CDA	$500	142	0.12	0.23	0.61	0.98	-0.12	-0.18
Complied with CDA	$750	240	0.17	0.24	0.73	0.92	-0.07	-0.10
Complied with CDA	$1,000	268	0.18	0.23	0.72	0.85	-0.05	-0.06

[47] Some values may not precisely figure due to rounding, which was done at the one-hundredth decimal.

Turning to the second operationalization of the dependent variable – compliance with costly conditions –, the results also indicate negative effects, but these are smaller than for CDA agreement. As discussed earlier, compliance with CDA is the most important test of my theory, since it captures the ability of IFI exceptional finance to convince countries to not only agree to costly conditions but to actually uphold the commitments they make, something that much existing scholarship has found to be a key limitation in the practice of aid conditionality. In the analytical test using the optimal bandwidth, I find a moderate, -4 percent effect of access to the treatment of exceptional finance on compliance with costly action among compliers. Findings for the alternative bandwidths follow a similar pattern as for CDA agreement, with broader bandwidths having less negative effects, including the most moderate, -6 percent effect for the largest, $1,000 bandwidth.

What is to be made of these findings? In sum, they are inconsistent with my theoretical contention that access to exceptional finance leaves countries more inclined to adopt costly aid conditions. This effect moderates considerably in the optimal bandwidth study group derived from statistical software – to the extent there is very little effect for the analysis of the most important operationalization of my dependent variable – and as the size of the study groups derived from alternative bandwidths expands. This raises the question of whether the cutoff serves as a valid instrument for groups very close to the threshold; as we will see in the 2SLS analysis in the next section, it does not. Despite these caveats, the initial review of findings from the difference of means RDD analysis is unsupportive of my theoretical expectations.

It is, however, important to highlight the role of always-treats in these findings. In the context of my study, always-treats refer to countries that got access to IDA exceptional finance when they should not have based on their income level. As I noted in the introduction to this chapter, in every study group, the share of always-treats is very high, exceeding 80 percent in all of them, exceeding 90 percent in all but one, and representing every country assigned to control in two. The average outcomes in the assigned to control groups, which lead to the negative ITT parameters and, ultimately, the negative average causal effect of treatment on compliers parameters, are driven by these countries. One way to view the findings, then, is that, among always-treats – countries with incomes above the cutoff that remain IDA members – access to exceptional finance may also positively affect willingness to agree to, and comply with, costly action. This is not the strong causal effect I anticipated in the RDD analysis, which can only be derived from the results for compliers, but it does not strongly refute my contention on the compellent impact of exceptional finance on CDA.

Results for compliers also lend nuance to the largely unsupportive difference of means findings. The effect of treatment access on both measures of the dependent variable is most negative in precisely those study groups in which the share of always-treats is highest. As compliance in the assigned to control group increases, the unexpected negative effect of access to treatment declines. This suggests that as more countries comply with the IBRD status – and lack of access to exceptional finance – that their income levels assign them, they are less likely to comply with costly action, just as I expect. The challenge is that, as study groups are constructed using

bandwidths further and further from the cutoff, they risk including countries that cannot be considered valid counterfactuals on relevant non-treatment covariates.

Non-compliance is a factor in all fuzzy RDD analyses (as opposed to sharp RDDs, where position relative to the cutpoint determines treatment). However, the extremely high share of always-treats in the study groups makes it difficult for my difference of means analysis to directly compare countries that differ only on their access to treatment. It is that comparison that would offer the best measure of the causal effect of IFI exceptional finance on costly development outcomes. To address this issue, later in the chapter, I conduct a same-country counterfactual analysis that compares CDA outcomes for a set of countries before and after they graduated from IDA to IBRD. Before doing so, in the next section, I complement the difference of means analysis above with 2SLS regression, another approach that leverages instrumental variables analysis to implement a fuzzy RDD and is also common in the literature.

c. 2SLS regression

Like difference of means tests, 2SLS regression leverages instrumental variables analysis to derive estimates of causal effects in fuzzy RDD set-ups. However, the parameter of interest for 2SLS in fuzzy RDD settings differs from that of difference of means analysis: While differences of means estimate the average causal effect of treatment for compliers,[48] 2SLS seeks to identify the effect of treatment across the study group. The 2SLS approach thus assumes that treatment has the same causal effect on all subjects in the study group. This is a strong assumption that may lead to biased estimates, since subjects that would always take treatment, even if assigned to control, may be systematically different from compliant subjects that only take treatment if assigned.[49] Despite this concern, many scholars view 2SLS as a valid way to estimate causal effects in fuzzy RDD settings, and for that reason, as well as to add robustness, I use it to complement my difference of means analysis (Burlig, n.d.; Perraillon, 2020).

2SLS leverages a two stage regression model to estimate causal effects. In my study, I follow Adam and Tsarsitalidou (2020), who leverage 2SLS to conduct a fuzzy RDD that leverages the distance in dollars of a country's per capita GNI to the IDA income cutoff instruments for treatment assignment. For the IDA cutoff to serve as a valid instrument, this distance should significantly predict IDA or IBRD status. Thus, in the first stage regression of the 2SLS model, the dependent variable is IBRD status, while the independent variable is distance from the cutoff: I expect a positive correlation, with countries more likely to be IBRD members as the dollar distance of their incomes above the cutoff increases. Using the predicted values of IBRD status

[48] They can also estimate average causal effect of treatment for always-treats and never-treats, but these are typically not the parameters of greatest interest.

[49] Note that the existence of these different types of subjects does not mean that subjects assigned to treatment would be systematically different from those assigned to control, since the distribution of non-compliers should in expectation be identical, hence offset each other, in the subjects on either side of the cutoff. So long as 'the mix of subjects in the control group is the same as the mix in the treatment group, up to random error', the assigned-to-control and assigned-to-treatment subjects can serve as valid counterfactuals.

from the first stage, the second stage regression measures the effect of treatment on my outcomes of interest, namely countries' agreement to, and compliance with, CDA.

The first and second stage regression equations for the 2SLS approach are below. Equation (2) shows the first stage. Here, X_i represents the dependent variable, IBRD membership; α_0 is an intercept; Z_i represents the independent variable, the distance in dollars between a country's per capita GNI and the IDA income cutoff; and ε_i is the error term. Equation (3) presents the second stage regression model. Here, Y_i represents the CDA outcome variable (agreement to, and compliance with, CDA); γ_0 is an intercept; $\hat{X}_i$ represents predicted probabilities of IBRD membership generated from the first stage regression; and η_i is the error term.

$$X_i = \alpha_0 + \alpha_1 Z_i + \varepsilon_i \tag{2}$$

$$Y_i = \gamma_0 + \gamma_1 \hat{X}_i + \eta_i \tag{3}$$

The first step in running 2SLS analysis is to show that the instrument is strongly correlated with the treatment. In my study, this means that the distance in dollars from the IDA income cutoff IDA should significantly predict a country's IDA or IBRD status, hence their access to exceptional finance. The high number of countries with incomes above the cutoff that retain IDA membership – the always-treats discussed in the difference of means analysis above – would seem to work against this expected correlation. That is, because so many countries near and above the cutoff remain in IDA, it raises questions about whether position relative to the cutoff meaningfully predicts IDA or IBRD status. While the empirical evidence broadly supports the validity of the IDA income cutoff instrument, there are important caveats, as I discuss below.

Table 2 shows the results of the first stage regression of IBRD status on distance from the IDA cutoff. As in the difference of means analysis, I use an optimal bandwidth generated by statistical software to derive my study group, namely, countries with income +/- $610 from the IDA cutoff. As expected, the correlation is positive: As countries' incomes move further above the IDA income cutoff, they become more likely to be IBRD members that lack access to IDA exceptional finance. However, the relationship is only weakly significant, with a p-value of 0.08. While this result suggests the cutoff may serve as a weak instrument for IDA and IBRD status, it does not necessarily invalidate its playing that analytical role.

For robustness, I also run the first stage regression using bandwidths of countries +/- $250, $500, $750, and $1,000 from the cutoff. Consistent with the results of the difference of means analysis, I find that distance above the IDA cutoff becomes more predictive of status as the size of the bandwidth and, by extension, study group expands. Whereas distance above the cutoff significantly and positively predicts IBRD status, as expected, in the study groups +/- $750 and $1,000 from the cutoff, the relationship is positive but not significant for the smaller, +/- $500

study group. Interestingly, and counter to my expectations, having an income above the cutoff is actually negatively correlated with IBRD status in the +/- $250 study group, although the relationship is not significant. These findings suggest distance from the IDA income cutoff may not serve as a valid instrument for the +/- $250 and $500 study groups, so I drop these bandwidths from the second-stage analysis.

Having analyzed the validity of the IDA income cutoff as an instrument for the treatment of access to IDA exceptional financial facilities, I proceed to the second-stage of the 2SLS approach. This stage analyzes whether the predicted values from the first stage regressions meaningfully predict a country's willingness to adopt costly development conditions in World Bank DPOs. As in the difference of means analysis, I operationalize the dependent variable in two ways: first, agreeing to a program that promotes costly action, or CDA, and, second, complying with the costly conditions to which a country agrees. Compliance provides the most direct test of my argument that access to exceptional finance increases the likelihood a country will take costly action. However, measuring the dependent variable in a second way offers additional insight into the effect of exceptional finance on recipients' strategic CDA decisions.

The results of the second stage regressions are presented in Tables 3 and 4 below. The analyses yield mixed findings. On one hand, the directionality of the effect is 'correct', with the models for both operationalizations of the dependent variable having negative coefficients for the optimal bandwidth. The more likely a country is to be in IBRD – and thus ineligible for IDA exceptional finance –, the less likely it is to agree to (Table 3), or comply with (Table 4), costly development conditions. This is what my argument anticipates.

The strength of the second stage effects, however, is ambiguous. Turning first to agreement with CDA as the measure of the dependent variable, the second stage regression yields null results, with a p-value of 0.45 for the optimal bandwidth. Turning next to compliance with costly aid conditions, the optimal bandwidth analysis just misses weak significance, with a p-value of 0.11. This second-stage finding suggests that, on the key measure of my dependent variable for a study group derived from an optimal income bandwidth around the IDA cutpoint, access to exceptional finance does appear to make countries more likely to adopt costly development conditions in World Bank programming, even as this result narrowly misses weak statistical significance. Despite this more encouraging finding, on balance, I conservatively interpret the second-stage results for both operationalizations of the dependent variable as indicating that access to exceptional finance does not clearly affect agreement to, or compliance with, costly aid conditions.

For robustness, I run models using alternative bandwidths for which the IDA income cutoff served as a valid instrument in the first stage analysis, namely those of countries with incomes within $750 and $1,000 of the cutoff. The results do not find strong relationships between access to exceptional finance and adoption of CDA. Unlike for the optimal bandwidth, the directionality of coefficients for the alternative bandwidths is positive, which is inconsistent with my expectation that the more likely a country is to be in IBRD, the less likely it is to adopt

Table 2. 2SLS First Stage Results

	Dependent Variable				
	IBRD Status				
	Optimal Bandwidth	$250	$500	$750	$1,000
Distance from Cutoff	0.00003*	−0.0001	0.00004	0.0001***	0.0002***
	p = 0.079	p = 0.229	p = 0.304	p = 0.000	p = 0.000
Constant	0.011*	0.011	0.018*	0.061***	0.091***
	p = 0.080	p = 0.327	p = 0.095	p = 0.000	p = 0.000
Observations	177	87	142	240	268
Residual Std. Error	0.075 (df = 175)	0.107 (df = 85)	0.118 (df = 140)	0.160 (df = 238)	0.201 (df = 266)
F Statistic	3.120* (df = 1; 175)	1.465 (df = 1; 85)	1.066 (df = 1; 140)	29.061*** (df = 1; 238)	63.605*** (df = 1; 266)

Note: *p<0.1; **p<0.05; ***p<0.01

Table 3. 2SLS Second Stage Results: CDA Agreement

	Dependent variable		
	CDA Agreement		
	Optimal Bandwidth	$750	$1,000
Predicted IBRD Status	-2.776	0.633	0.042
	p = 0.451	p = 0.257	p = 0.889
Constant	0.383***	0.318***	0.341***
	p = 0.000	p = 0.000	p = 0.000
Observations	177	240	268
Residual Std. Error	0.484 (df = 175)	0.472 (df = 238)	0.477 (df = 266)
F Statistic	0.573 (df = 1; 175)	1.292 (df = 1; 238)	0.020 (df = 1; 266)

Note: *p<0.1; **p<0.05; ***p<0.01

Table 4. 2SLS Second Stage Results: CDA Compliance

	Dependent variable		
	CDA Compliance		
	Optimal Bandwidth	$750	$1,000
Predicted IBRD Status	-4.989	0.204	0.045
	p = 0.107	p = 0.660	p = 0.855
Constant	0.237***	0.182***	0.188***
	p = 0.000	p = 0.000	p = 0.000
Observations	177	240	268
Residual Std. Error	0.406 (df = 175)	0.392 (df = 238)	0.394 (df = 266)
F Statistic	2.631 (df = 1; 175)	0.195 (df = 1; 238)	0.034 (df = 1; 266)

Note: *p<0.1; **p<0.05; ***p<0.01

costly conditions. However, the p-values for these analyses are far from statistical significance for both alternative bandwidths and for both agreement to, and compliance with, CDA. I interpret the results of the second-stage analysis for the alternative bandwidths as essentially null, providing neither support for, nor a strong refutation of, my theoretical expectations.

In sum, the results from the 2SLS RDD analysis do not provide strong evidence that access to IDA exceptional finance causally affects aid recipients' willingness to adopt costly development conditions. The direction of the second stage effect for the study group derived from an optimal bandwidth, rather than bandwidths selected *ad hoc*, is what I expect: Countries more likely to be IBRD members are less likely to adopt aid programs that promote CDA. Moreover, the model that uses an optimal bandwidth to analyze the effect of IBRD status on compliance, which is the best test of my argument, yields a result – p = 0.11 – that narrowly misses weak significance. Despite these encouraging findings, the results also show that the IDA income cutoff only appears to be a valid instrument for three of the five study groups, and for the two non-optimal bandwidths for which it is valid – those within $750 and $1,000 of the cutoff – IDA countries are actually less likely than IBRD countries to agree to, or comply with, CDA conditions in World Bank aid programs, though these results were far from conventional levels of statistical significance. Considering these results together, I interpret the findings from the 2SLS RDD analysis as not supportive of my theoretical expectations.

d. Direct matching of same-country counterfactuals

In the third and final analytical approach in this chapter, I use a quasi-design-based method that seeks to account for some of the shortcomings of the difference of means and 2SLS approaches. Recall the finding in the difference of means analysis that, in nearly all study

groups, the vast majority of countries – and in some groups all countries – that were assigned to control instead got treatment. That means a sizable group of countries remain IDA members, and retain access to IDA's exceptional finance, after their income exceeds the level at which they 'should' join IBRD. The results of the first stage 2SLS analysis presented above showed that the position of a country's income relative to the IDA cutoff does significantly predict its IDA or IBRD membership in three of the five study groups assessed, including that derived from an optimal income bandwidth. Yet, the fact that, even in these groups, many countries are always-treats that retain IDA membership after their income eclipses the cutoff makes it difficult to use the cutoff as a basis to directly compare CDA outcomes for similar IDA and IBRD countries.

In this subsection, I try to address this challenge by directly selecting for analysis the closest possible counterfactual of IDA and IBRD countries near the threshold: themselves. World Bank management periodically considers whether certain members should 'graduate' from IDA to IBRD based on a range of measures, including income (hence the cutoff), creditworthiness, and social development. IDA graduates enter IBRD at the start of a new IDA replenishment cycle. For example, Bolivia, Sri Lanka, and Vietnam became IBRD members in FY2018, the first year of the IDA18 cycle. Angola, Armenia, Bosnia and Herzegovina, Georgia, and India, for their part, became IBRD members in FY2015, the first year of IDA17.

The factors that determine IDA graduation are unlikely to change significantly within a country from year to year. As such, a country the year before it graduates from IDA is likely to serve as a near-perfect counterfactual for itself during the next year, its first as an IBRD member. For example, Bolivia in FY2017 was likely essentially identical to Bolivia in FY2018 on every development covariate (and nearly every covariate in general). A key exception, however, is that whereas the Bolivia of FY2017 had access to IDA exceptional finance, the Bolivia of FY2018 was an IBRD member that lacked such access. Leveraging IDA graduation thus provides an opportunity to establish a study group of countries that are counterfactuals for each other on all relevant covariates except IDA membership and access to IDA exceptional finance.

To construct my study group, I first identify all countries that graduated from IDA to IBRD during the analytical period from FY2010-FY2019 (IDA, 2023b).[50] These include eleven countries: Azerbaijan (entered IBRD in FY2012); Angola, Armenia, Bosnia and Herzegovina, Georgia, and India (FY2015); and Bolivia, Sri Lanka,[51] and Vietnam (FY2018). Azerbaijan did not have any World Bank DPOs during the period so is excluded from the analysis. This leaves a study group of eight countries: Angola, Armenia, Bolivia, Bosnia and Herzegovina, Georgia, India, Sri Lanka, and Vietnam. Note that 110 recipients had World Bank DPOs over the period: Graduation is rare.

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[50] Syria, in FY2017, was the only country to reverse graduate from IBRD to IDA during the analytical period. However, because Syria has not been authorized to receive World Bank funding during its ongoing civil war, which began in 2011, I exclude it from the analysis.

[51] Sri Lanka reverse graduated to IDA in FY2023, but this is after the conclusion of the analytical period, so Sri Lanka, as an IDA graduate in FY2018, is included in the analysis.

The rarity of IDA graduation points to a key tradeoff of my approach: the small number of countries in the study group. I am interested in countries that are as close as possible in income but different in IDA and IBRD status. Comparing the same country at different points in time achieves this, but the small number of IDA graduates leads to a small population of analytical units. This threatens the external validity of my analysis: The results from same-country counterfactuals may only hold for the small group of countries that graduated from IDA during the analytical period. Still, the significant gains to internal validity of my approach, which minimizes differences on relevant variables aside from access to IDA exceptional finance, helps to offset the challenges to direct comparison of near-threshold IDA and IBRD countries in the difference of means and 2SLS approaches, where external validity is also limited.

The observations in my study group are for the IDA replenishment period before and after study group countries graduated from IDA to IBRD. That is, I compare observations of whether and how many times the country agreed to, and complied with, a World Bank CDA program in each of the years of the IDA replenishment period before it graduated to IBRD and for each year of the IDA replenishment cycle when it first became a member of IBRD. For example, for Georgia, which graduated from IDA to IBRD in FY2015, I measure costly development outcomes for FY2012-2014, its last three years as an IDA country, and for FY2015-2017, its first three years as an IBRD country. For Bolivia, Sri Lanka, and Vietnam, which became IBRD members in FY2018, I only use data from their final two years as IDA members, FY2016-2017, and first two years as IBRD members, FY2018-2019, because the final year of my analytical period is FY2019, which prevents using data from the full FY2018-2020 IDA cycle. This approach allows me to generate a sufficient number of observations for meaningful analysis while ensuring that countries remain valid counterfactuals for themselves, which would be threatened if I included data over a longer period, such as comparing outcomes for Vietnam in FY2010 with outcomes for Vietnam in FY2019, say.

Table 5 shows summary statistics for the same-country counterfactual study group. As can be seen, on average, countries agreed to similar numbers of DPOs, 1.25 and 1.38, in the years immediately before and immediately after their graduation from IDA, respectively. For example, Armenia had two DPOs from FY2012-2014, the final three years it remained an IDA country, and agreed to three DPOs from FY2015-2017, its first three years in IBRD. Georgia had three DPOs in its final three years as an IDA member, from FY2012-2014, and then agreed to two DPOs during its first three years in IBRD. Bolivia did not have any DPOs during its final two years in IDA or its first two years in IBRD.

Turning to costly development aid programs, the data show countries agreed to more after graduating into IBRD than in their final years in IDA. In the immediate pre-graduation years, countries agreed to an average of 0.38 CDA programs versus 0.63 costly programs in their first three years in IBRD. These numbers are largely driven by Armenia, all of whose three post-graduation DPOs pursued costly action. In general, though, countries agreed to few programs with CDA conditions. Three of the eight graduates – Angola, Bolivia, and Sr Lanka – did not agree to any CDA programs in the pre- or post-graduation period, while three others – Bosnia and Herzegovina, Georgia, and Vietnam – only agreed to one.

Table 5. IDA Graduates from FY2010-2019[52]

Country	Year of Grad	Pre-Grad DPOs	Post-Grad DPOs	Pre-Grad CDA DPOs	Post-Grad CDA DPOs	Pre-Grad CDA Compliance	Post-Grad CDA Compliance
Angola	2015	0	2	0	0	0	0
Armenia	2015	2	3	0	3	0	0
Bolivia	2018	0	0	0	0	0	0
Bosnia and Herzegovina	2015	0	2	0	1	0	1
Georgia	2015	3	2	0	1	0	1
India	2015	2	1	2	0	2	0
Sri Lanka	2018	1	0	0	0	0	0
Vietnam	2018	2	1	1	0	1	0
Average		**1.25**	**1.38**	**0.38**	**0.63**	**0.38**	**0.25**

Finally, turning to compliance with costly program conditions – the most important measure of my dependent variable – the data are again characterized by a large share of '0' observations. Whereas countries *agreed* to very few CDA programs before or after their IDA graduation, they *complied* with fewer still. Countries complied with an average of 0.38 CDA programs in the immediate pre-graduation period – meaning they complied with each CDA program they agreed to – while their rate of compliance with CDA programs dipped to 0.25 percent in the post-graduation period. These numbers are also driven by Armenia: The country agreed to three costly programs in its first three years in IBRD, as noted above, but complied with none of them, earning an IEG rating of 'Moderately Unsatisfactory' on each. The descriptive data thus paint an ambiguous picture: While countries appear marginally more inclined to agree to costly conditions after joining IBRD and losing access to IDA exceptional finance, which runs counter to my theoretical expectations, they appear marginally more inclined to comply with costly conditions while in IDA, which is consistent with my expectations.

To analyze these data, I run logit regressions to assess the probability that same-country counterfactuals agree to, and comply with, costly development aid conditions just before and after graduating from IDA. Using the data on graduates generates 42 country-year observations, a small study group for statistical analysis but one that contains data for all members of the relevant population. Most countries have six observations, representing their three years just before graduation from IDA and three years just after. As noted, however, the three FY2018 graduates – Bolivia, Sri Lanka, and Vietnam – only have four observations, for FY2016-FY2019. I operationalize the dependent variable in two ways: one is a dichotomous measure of whether the country agreed to a costly development World Bank program that year, and the second is a dichotomous measure of whether the country complied with the conditions of a costly development program that year. I also use ordinary least squares regression to run analyses for the number – a count variable – of CDA programs agreed to, and

[52] This excludes Azerbaijan, which graduated in FY2012 but did not take out any DPOs during the analytical period.

complied with, each year. The independent variable in all tests is IBRD status. I expect a strong negative relationship: For the logit models, this would mean countries are more likely to agree to, and comply with, costly aid conditions when they are IDA members and have access to IDA exceptional finance; in the linear models, this would mean countries agree to, and comply with, a higher number of CDA programs while members of IDA.

As shown in Table 6, I find null results for CDA agreement and compliance in each analytical test. In the logit models, I find a positive coefficient for agreement and a negative coefficient for compliance, but both results are far from statistical significance. As indicated by the descriptive data, countries are, surprisingly, more likely to agree to costly action when they lack access to IDA exceptional finance and, unsurprisingly, more likely to comply with costly action when they have access to exceptional finance, but the high p-values mean I cannot reject the null that the effect of IBRD status on the probability of agreement and compliance is nil. Turning to the linear models, I find the same results: a positive coefficient for agreement and a negative coefficient for compliance, but each result is again far from statistical significance. Countries agree with more CDA programs when in IBRD and comply with more costly programs in IDA, but the apparent effect of IBRD status on these outcomes may be due to chance. In closing this section, I note that the analysis here offers a first look at how access to exceptional finance may affect countries' costly action decisions just before and just after they leave IDA. A useful path for future research would be to deepen this analysis through a small-N set of case studies that more rigorously interrogate the mechanisms that drove costly decisions in these IDA graduates.

a. Conclusions and implications

The findings of the RDD and same-country counterfactual analysis in this chapter are nuanced but generally unsupportive of theoretical expectations. On one hand, the results do not show that access to exceptional financial assistance through IDA has a positive, causal effect on the willingness of countries to adopt costly development action. On the other hand, they also do not show that access to IDA exceptional finance negatively affects countries' willingness to adopt costly action. The difference of means tests yielded negative effects of exceptional finance on CDA for bandwidths nearest the threshold, but these effects moderated substantially as the income bandwidth increased. Indeed, the effects were least negative – hence closest to my expectations – in the study group derived from an optimal bandwidth, where the effect for the key test of CDA compliance was -4 percent and only -3 percent for the intention-to-treat parameter.

Findings from the 2SLS analysis were less unsupportive than those from the difference of means tests but still did not offer clear support for my argument. The second-stage results for compliance in the optimal bandwidth nearly missed weak significance. Further, the first-stage results showed that the IDA cutoff does not serve as a valid instrument for the bandwidths that produced the most unexpected findings in the difference of means tests – +/- $250 and +/- $500 –. This suggests that those unsupportive findings should be viewed with caution. The

Table 6. Statistical Analysis of Same-Country Counterfactuals

	Dependent Variable			
	CDA Agreement *Logistic*	CDA Compliance *Logistic*	# of CDA Agreed *OLS*	# of CDA Complied *OLS*
IBRD	0.629	-0.460	0.095	-0.048
	p = 0.437	p = 0.636	p = 0.444	p = 0.644
Constant	-1.792***	-1.792***	0.143	0.143*
	p = 0.005	p = 0.005	p = 0.110	p = 0.055
Observations	42	42	42	42
Log Likelihood	-20.139	-15.217		
Akaike Inf. Crit.	44.278	34.434		
Residual Std. Error (df = 40)			0.399	0.331
F Statistic (df = 1; 40)			0.597	0.217
Note:				*p<0.1; **p<0.05; ***p<0.01

bandwidths for which the cutoff *did* serve as a valid instrument – +/- $750 and +/- $1,000 – were those that produced difference of means results that were less misaligned with my expectations, although their second-stage 2SLS analysis yielded null results.

Overall, I interpret the results of the three analytical approaches employed in this chapter as largely unsupportive of my theoretical expectations, but the nuance within these findings also leads me to conclude that the analysis here is not decisive and that its implications for my argument need to be viewed alongside the more supportive findings of the statistical analysis in the previous chapter. Before discussing the implications of my findings, it is useful to address two potential concerns about the RDD analysis. One is how to think about the effect of 'normal' IDA finance on CDA outcomes. The concern here is that the treatment is actually 'two-barreled'. It could be that exceptional finance is affecting IDA country decisions on whether to adopt costly actions. However, it could also be their access to normal IDA finance – which is cheaper than IBRD finance – that drives those outcomes.

It is difficult to tease out the effect of access to exceptional finance from access to standard IDA finance empirically, but evidence can be found in the World Bank Window for Host Communities and Refugees. This is the IDA facility that provides countries with additional finance, beyond their normal allocation, if they adopt programs and reforms that support refugees and host communities. Introduced in 2017, the initiative has had strong uptake, with 17 countries having gained eligibility to date (World Bank, 2022d).[53] To do so, each country has had to develop a government strategy that outlines new progressive reforms and programs it will adopt to enhance development opportunities for refugees. These represent costly development action these governments were not willing to undertake prior to the offer of exceptional resources through IDA.

[53] The facility was initially named the IDA Regional Sub-Window for Refugees and Host Communities.

In some cases, exceptional finance from the IDA Window resulted in significant reforms in countries that had previously had restrictive refugee policies. In 2019, Ethiopia adopted Directive No 01/2019 to Determine the Conditions for Movement and Residence of Refugees Outside of Camps, which eased freedom of movement for refugees who had long been largely confined to camps (UNHCR, 2022b). In 2021, Kenya adopted a new Refugee Act, which increased the ability of refugees to move outside of camps, formally participate in the labor market, and access education (Halakhe & Miller, 2022). In Rwanda, the Window supported a $20 million project in 2021 that enhanced health care, rehabilitated schools and water systems, and provided finance to business owners in refugee-hosting areas to help refugees and host communities address the effects of COVID-19 (World Bank, 2021a). While one must be careful in assigning causality, it is notable that these countries had hosted refugees and had access to normal IDA resources for years but only proved willing to adopt these key costly measures after the offer of exceptional finance from the IDA Window was on the table.

A second concern is that the dependent variable of costly development outcomes is affected by factors beyond access to exceptional finance. As discussed earlier in this chapter and in chapter two, beyond income level, the World Bank groups countries into IDA and IBRD based on a wider range of factors including measures of institutional strength, economic dynamism, and social development. However, I argue that IFIs offer exceptional finance in order to incentivize countries to undertake costly action. Perhaps World Bank managers strategically group into IDA countries that face challenges related to peace, prevention, and global public bads, even though they would otherwise group those countries into IBRD based on income and the other factors I have just mentioned. This would invalidate the RDD approach, because there would be systematic differences between IDA and IBRD countries near the threshold on their exposure to the challenges that IFIs use exceptional finance to address: They would thus not be valid counterfactuals on everything aside from their access to IDA exceptional finance.

Empirically, the concern of strategic sorting could be addressed by conducting balance tests on exposure to conflict, crisis risks, and global public bads. I reserve that analysis for future work. However, this concern can be mitigated *a priori* by the fact that the World Bank does have exceptional tools, like the Global Concessional Financing Facility, that it has created specifically for IBRD countries, as I discuss in depth in the case studies of Jordan and Colombia. These tools are less numerous and less commonly used than for IDA members. However, it is not the case that World Bank management would need to group countries into IDA in order to provide them with exceptional financial support as an incentive to undertake costly action.

There is also little evidence that World Bank management give more exceptional finance to IDA countries near the income threshold than IDA countries that are further away. This would raise concerns for my argument because if World Bank management, for some reason, viewed IDA countries near the threshold as particularly likely to adopt costly reforms if offered exceptional finance, it would suggest that factors other than exceptional finance contributed to costly outcomes in these countries. Even a cursory review of the data shows this is unlikely to be the case. From fiscal years 2010-2019, countries such as Afghanistan, Burkina Faso, Central African

Republic, Liberia, Malawi, and Sierra Leone – among the poorest countries in the world, with per capita GNIs far below the IDA threshold – all received multiple World Bank exceptional finance programs. While future research could explore this issue with greater rigor, it does not seem, at first pass, that characteristics in IDA countries near the cutoff left World Bank managers more likely to offer them exceptional finance than lower-income IDA members.

Turning to implications, I conclude that, despite their generally unsupportive results, the chapter's RDD and counter-factual analyses highlight important considerations for scholarship and policy on foreign aid. First, in terms of scholarship, it is difficult to leverage the IDA income cutoff as the basis for RDD analysis of development outcomes. The number of always-treats in the study groups around the IDA income cutoff is so large that it leaves minimal – and, in some study group bandwidths, no – IBRD compliers to which to compare the outcomes of IDA compliers. While RDDs implemented through difference of means tests account for high crossover in the denominator of the formula used to calculate the average causal treatment effect for compliers, the relative absence of IBRD compliers in each study group raises questions about how much this parameter truly reveals about the effect of different treatments on development outcomes. That is why I do not view the analytical findings in this chapter as decisive: Future research should identify ways to more effectively account for always-treats to provide a more effective comparison of similar IDA and IBRD countries in an RDD framework.

Second, from a policy perspective, the analysis in this chapter calls into question the basis for depriving recent IDA graduates of access to the exceptional financial facilities that IDA members enjoy. In making decisions on whether to graduate countries from IDA to IBRD, World Bank managers consider a range of objective indicators, including income, creditworthiness, and measures of social development. Yet, it is not clear why Sri Lanka, for example, should have had access to IDA's exceptional finance in FY2017, its last year as an IDA member, but not in FY2018, its first year in IBRD, despite seeing only a marginal increase in its per capita GNI from $3,920 to $4,020 and little year-to-year change in other development indicators just prior to its graduation (World Bank, 2023). Once in IBRD, the country remained exposed to high risks of a range of shocks that the exceptional IDA Crisis Response Window could have provided crucial support to help address, but Sri Lanka's graduation from IDA deprived it of this option.

In 2022, Sri Lanka experienced a sharp macroeconomic crisis that saw its per capita GNI plummet, poverty rates spike, and the Bank conduct a rare 'reverse graduation' of the country from IBRD back to IDA. This will allow Sri Lanka to benefit once more from IDA's exceptional support at a time when much of the country is grappling with a food security crisis and other depravations. Yet, the rapid deterioration in Sri Lanka's development conditions illustrates how vulnerable to shocks recent IDA graduates remain and calls into question the logic for cutting them off from IDA's exceptional support. Moreover, the Bank's aversion to reverse graduations beyond cases of social and economic collapse – Syria and Sri Lanka are the only countries that have moved from IBRD to IDA since FY2010 – means that other recent IDA graduates are unlikely to regain access to IDA's exceptional financial facilities even if those tools could help them address shocks and periods of severe stress. One policy implication of this chapter's analysis, then, is that the World Bank should consider offering a transitional period during

which recent IDA graduates would continue to have access to IDA exceptional finance despite their IBRD membership.

A final implication of the chapter underscores the scope conditions of my argument: Whether or not countries adopt costly development conditions is likely to derive from a wide range of factors, of which access to IFI exceptional finance is only one. Other variables – from history, to domestic politics, to foreign policy, and others – are likely to loom large as countries mull decisions on how to use scarce foreign aid. The analytical methods I have used thus far – large-N statistical analysis, RDD, and a same-country counterfactual comparison – have sought in different ways to assess how important access to IFI exceptional finance is likely to be when countries consider aid programs that promote peace, crisis prevention, and global public goods. In the next two chapters, I dive deeper into the multidimensionality of aid recipients' strategic interaction with IFIs on costly development issues, employing qualitative case studies of Jordan and Colombia, and a shadow case study of Peru, to better understand how decisions on these issues are made.

Case Studies: Overview

The statistical analysis in chapter 4 found that developing countries are more likely to adopt the conditions of aid programs that promote costly development action (CDA) when IFIs deploy exceptional financial incentives than when they do not. However, the bar for demonstrating causality is higher than showing statistically significant correlations. The regression discontinuity design in chapter 5 took an opening step in this direction, analyzing whether exceptional finance affects CDA outcomes among similar aid recipients, but found mixed results. The ambiguous results from the quantitative analysis in chapters 4 and 5 suggest that there is a need for more detailed work to identify whether IFI exceptional finance causally effects CDA decisions and, if so, under which circumstances and how that effect operates. More evidence is also needed to illustrate the circumstances under which exceptional finance may prove insufficient to induce developing countries to take costly actions, and explore potential alternative explanations that might play a more important role in shaping these decisions.

The case studies in chapters 6 and 7 conduct this more detailed analysis of whether, when, and how exceptional finance can shape recipient decisions on taking CDA. Chapter 6 focuses on Jordan, a paradigmatic case for my theory, where the offer of IFI exceptional finance clearly played a critical role in convincing the country's government to enhance support for Syrian refugees. In chapter 7, I turn to Colombia, another case in which access to IFI exceptional finance compelled government leaders to increase support for refugees, in this case those fleeing from Venezuela. The Colombia case also illustrates a series of additional factors that, in conjunction with the offer of exceptional finance, shaped policymakers' decisions on refugee support. I show how variation in these factors led to different outcomes in the shadow case of Peru, a country with strong similarities to Colombia but which declined offers of IFI exceptional finance and provided more limited support to Venezuelan refugees. Both chapters also consider potential alternative explanations for the decisions countries took on CDA. The case studies in chapters 6 and 7 thus allow me to trace the mechanisms through which exceptional finance affects aid recipient CDA decisions, explore other factors that may have shaped these outcomes, and thereby illustrate the strength, limits, and scope of my argument.

The case study analysis draws on primary and secondary evidence to underpin its conclusions. In terms of primary evidence, the studies benefit significantly from my status as a World Bank staff member. This has afforded me access to information, interviews, and informal conversations that give me unique insight into the institutional procedures and processes that guide World Bank interaction with aid recipients on costly development issues and the factors that shape recipients' positions. The information and analysis presented in the case studies draw directly on this institutional knowledge, including discussions – both formal interviews and informal, unplanned conversations, and both during the refugee crises and more recently – with colleagues and counterparts who worked directly on refugee issues in Jordan, Colombia, and Peru. These include prior World Bank country directors and managers of the countries discussed, project team leaders, staff who led the dialogue with government counterparts on offers of exceptional finance, current and former government officials, and other members of the international community, including at the United Nations Office of the High Commissioner

for Refugees. To protect identities, I do not refer to these individuals by name in the text, but instead give a sense of the capacity in which they served, and cite our interactions as 'personal communication'. This approach evidences the credibility of the source while remaining within the parameters of my Institutional Review Board protocol in the case of interviews and preserving the confidentiality of those from whom I gathered information through informal, unplanned discussions.

These discussions are buffeted by my own experience working on or in case study countries. I worked directly on the World Bank's response to the Syrian refugee crisis in Jordan, serving as a founding member of the Global Concessional Financial Facility, which played a crucial role in shaping Jordan's refugee policies, as I explore in the following chapter. For Colombia, I spent a summer conducting research on the ground in the capital city of Bogotá and in refugee-hosting areas across the country during the summer of 2019, where I interviewed government officials, World Bank staff, as well as non-governmental organizations, academics, and a range of other actors engaging on the refugee issues and the government's policy response. Finally, I have conducted a range of discussions with government officials, United Nations counterparts, and refugees and host community members themselves in South Sudan, where I have led the World Bank's engagement on forced displacement and conflict issues since early 2021 and where the government shortly after gaining independence in 2011 surprisingly adopted one of the world's most progressive refugee policy frameworks despite a lack of IFI exceptional finance. While I do not feature South Sudan as a case study, the insights gained from my experience there offer important insights that I draw on in my analysis of Jordan, Colombia, and Peru. Coupled with the secondary sources I bring in from World Bank and government documentation, press reports, scholarly work, and policy reports, my experience as a World Bank staffer has allowed me to collect, analyze, and draw conclusions from a rich universe of primary evidence that could not have been gathered by most other scholars of aid conditionality and which represents one of the distinct advantages of my study.

6. Jordan: A Paradigmatic Case of Exceptional Finance and Costly Development Action

This case study assesses Jordan's approach to the more than 1.3 million Syrian refugees who began to arrive in Jordan after the outbreak of Syria's civil war in 2011 (ACAPS, 2021). Jordan provided a global public good to the international community by hosting Syrian refugees so other countries would not have to, a service in keeping with its long history as a haven for those forced to flee their homes, including more than two million Palestinian and Iraqi refugees who had lived in Jordan for decades (Minority Rights Group International, 2023; Twigt, 2022; UNRWA, 2022). Indicative of this sense of solidarity, the Jordanian government and public initially welcomed Syrians as fellow Arabs who needed support, but, as the number of Syrian refugees moving from camps into cities and towns increased, so, too, did the fiscal and financial costs of supporting them. The government also began to face increased political pressure from Jordanians who felt refugees received better treatment than they did as citizens. These dynamics posed difficult policy questions to Jordan's leaders on the level of support they should provide to Syrian refugees over the longer-term. By early 2016, the government made clear it would limit its support for Syrians unless the international community offered additional financial resources to ease Jordan's burden in providing this valued global public good.

The Syrian crisis also coincided with – and in some ways drove – growing realization by IFIs that they had an important role to play on the forced displacement issue. Since the exodus of refugees across Europe after World War II, refugee support had been seen as the mandate of humanitarian organizations, particularly the United Nations Office of the High Commissioner for Refugees (UNHCR), which were charged with keeping vulnerable displaced people alive as they sought resettlement in other countries. Yet, while humanitarian aid seeks to provide immediate, life-saving support to those facing temporary emergencies, by the mid-2010s, the situation of refugees from Syria and elsewhere demonstrated that forced displacement tended to last not for a few days, weeks, or months, but for years (Devictor & Do, 2016). The empirical reality that displacement was usually a protracted experience rendered the support of humanitarians inadequate to address refugees' needs for longer-term socioeconomic support that would allow them to rebuild their lives. This gave IFIs impetus to adopt new thinking on the dynamics of forced displacement, concluding that their poverty-reduction and broader development mandate gave them a responsibility to encourage host countries to adopt policies and programs that would integrate refugees into public service systems, labor markets, and sectoral planning (World Bank, 2017a).

The evolution of Jordan's views on Syrian refugees coupled with IFIs' growing focus on refugee support served as the backdrop for Jordanian-World Bank strategic interaction as the two actors discussed the nature of World Bank financial assistance in 2016.[54] To that point, World Bank engagement in Jordan had been limited, but with the country's development needs rising sharply due to the refugee influx, there emerged scope for a broader World Bank program and

[54] Much of the below history comes from the author's personal experience working on the Syrian refugee issue with Jordanian government officials as a staff member of the World Bank. The analysis is supplemented by interviews and informal discussions with development practitioners who worked on the issue at the time.

financial commitment. As discussions got underway on what form that program would take, financial terms emerged as a sticking point. Like all of its member countries, the World Bank capped the volume of aid Jordan could receive, and, as a middle-income IBRD member, Jordan had to borrow Bank loans at non-concessional interest rates. As a senior World Bank representative in Jordan at that time noted, the notion of using scarce aid resources for refugees while also increasing the country's debt burden proved unpalatable to the Jordanian authorities (personal communication, January 12, 2023).

Jordan had been willing to support refugees by leaving its border open, allowing movement within the country, and looking the other way as refugees informally used public services and worked. However, the government could not justify to its people incurring debt for IFI programs that scaled-up and formalized assistance to refugees at a time when Jordanian citizens had considerable development needs of their own. This was particularly true as the country's fiscal and financial position had become strained due to the support it was already providing to Syrians, which made it increasingly difficult to maintain services for nationals (Al-Khalidi, 2013). The ball thus rested in the court of the World Bank and Jordan's other leading donors. Either they could sweeten the pot of using aid to support refugees, or they risked seeing Jordan curb its contribution to this priority global public good.

The outcome of Jordan's strategic interaction with the World Bank on refugee support is perhaps the most illustrative example of the argument that underpins this dissertation. As detailed below, the Bank offered to leverage grants from Western donors to reduce the interest rate on its loans to Jordan from the usual levels it received as a middle-income IBRD member country to the concessional, zero-interest rate levels typically reserved for poorer members of IDA. The Bank's offer, however, came with the condition that Jordan use this money for programs that benefited Syrian refugees and the Jordanian 'host communities' in which they lived. The deal amounted to a *quid pro quo*: The Bank and Western donors essentially said, 'Increase support for refugees, and you will receive cheaper money.' They hoped that offering this exception to the Bank's usual mode of providing finance would meet Jordan's demand for increased foreign assistance to reduce the fiscal, financial, and political costs of hosting refugees and contributing to a global public good that had emerged as a top international development priority.

The deal worked. Following the World Bank's exceptional offer of concessional finance through a new, dedicated funding facility, Jordan agreed to issue 130,000 formal working permits to Syrian refugees, a policy reform it had previously refused to adopt. Other pro-refugee reforms followed, including granting Syrians formal access to public health and education and improving water treatment systems that served refugees and their Jordanian hosts (Global Concessional Financing Facility, 2023). In 2019, the Bank offered Jordan another form of exceptional finance, brokering a donor-backed guarantee that increased the amount of money the Bank could lend to Jordan and thus help to ease the country's still-perilous financial position (World Bank, 2019a). This seldom-used guarantee facility shows how countries can leverage costly development action taken at one time to secure future benefits, a strategic play that Colombia also successfully employed, as I will discuss further in the case study in the following chapter.

The case of Jordan during the Syrian refugee crisis is thus a paradigmatic case that elucidates the causal pathways of my argument. It shows clearly how IFIs can use exceptional finance, in this case a side payment, to make it more beneficial for recipients to adopt IFIs' preferred aid program conditions than revert to their best available alternative. The case also provides support for my theoretical expectation that exceptional finance should prove most effective in compelling recipients to adopt conditions – like those that promote the costly development actions of peace, crisis prevention, and global public goods – that reflect top IFI priorities and that recipients broadly support but do not prioritize for the use of scarce aid resources. In Jordan, the question was whether the government would deepen support for the Syrian refugees who flooded into the country in the early and mid-2010s, a costly action that had by then become a top institutional priority at many IFIs, including the World Bank. The offer of exceptional financial assistance, in the form of concessional interest rates for pro-refugee programming, helped secure a deal that left both Jordan and the World Bank better off than their best, no deal alternatives.

The case study proceeds as follows. I first briefly set out the Jordanian country context at the time of the Syrian crisis and the historical, political, economic, and social dynamics that informed it. I then detail the origins, evolution, and impact of the Syrian refugee inflows, as well as the initial response by Jordan's government and host communities. Next, I situate the case relative to my theoretical expectations, noting what my argument would anticipate the outcome of Jordan and the World Bank's interaction on refugee support to have been, before detailing how that interaction actually played out and the refugee support to which Jordan ultimately agreed. The chapter then explores alternative explanations to my argument about the role of exceptional finance. Finally, I draw conclusions from the case study, highlight implications for the strength and scope of my theory, and identify open questions for future research.

a. Country context

Jordan is an Arab country in Western Asia that borders Saudi Arabia, Iraq, Syria, the Palestinian West Bank, and Israel. The country has a population of 11.1 million, over 95 percent of whom are Sunni Muslim (UN Population Division, 2022; U.S. Department of State, 2022). With a per capita GDP of $4,400, Jordan is an upper-middle income country and member of the World Bank's IBRD grouping (World Bank, 2023f). Despite having one of the Middle East's most open economies and relatively strong infrastructure, the Jordanian economy remains stagnant. GDP growth hovers around two percent, unemployment exceeds 20 percent, and public debt has risen significantly in recent years and now totals 113 percent of GDP (World Bank, 2023g). High energy prices and limited water supply pose structural challenges to increasing investment, job-creation, and growth, challenges that would be exacerbated by the large influx of Syrian refugees starting in 2011, which further taxed these scarce resources. While Jordan's poverty rate is relatively low, at 16 percent, many Jordanians remain vulnerable to price rises and economic shocks (Refaqat et al., 2022; World Bank, 2023f).

Along with tourism and remittances, foreign aid represents a major source of Jordan's hard currency. In 2021, the country received $4.4 billion in aid, nearly 10 percent of its $45 billion economy (Aid Coordination Unit, 2021). The World Bank provided $3.2 billion from 2018-2021, making it Jordan's second-largest source of aid over that period. Jordan has also positioned itself as a strategic partner to the United States and other western powers by spearheading efforts to promote stability in the Middle East and broker a resolution to the conflict between Palestine and Israel, which Jordan formally recognized in 1994, becoming only the second Arab country to do so, after Egypt. Jordan has translated deft diplomacy into economic benefits, with the United States, its largest source of aid, providing $5.3 billion from 2018-2021, with Germany, the European Union, the European Investment Bank, and France also serving as key donors (Aid Coordination Unit, 2021).

Politically, Jordan has been governed by the Hashemite royal family since its independence in 1946 and is today a constitutional monarchy that has been ruled by King Abdullah II since 1999. The county has a bicameral parliament, including an elected lower house led by a prime minister who is appointed by the king but chooses its own cabinet. While the prime minister is technically head of government, political control rests with the king, who oversees all aspects of foreign and domestic policy. Still, the authority of the monarch has limits, and protests during the Arab Spring in 2011-2012 called for the King to devolve more political power, leading to a series of parliamentary reforms and the eventual establishment of proportional representation in 2016, which afforded greater influence to opposition parties (Hussainy, 2017; Torki Bani Salameh, 2017). Preserving control over Jordanian politics thus requires King Abdullah II to satisfy a broad range of actors, from political parties to Islamic fundamentalists to youth frustrated by a lack of economic opportunity. This sensitive political context served as the backdrop to the King's deliberations on how to manage Syrian refugees.

Another critical factor that would shape Jordan's approach to displaced Syrians was the country's long history as a host of refugees from across the region, especially Palestine and Iraq. From its earliest days as a sovereign state, Jordan opened its doors to those fleeing Arab-Israeli wars. This was most stark in the case of Palestine, 2.3 million refugees from which now live in Jordan, most of whom have origins in a mass exodus from 1947-1967 as Israel and its Arab neighbors grappled for territory (UNRWA, 2022). Jordan also hosts large numbers of Iraqis, who arrived in three primary waves following the Gulf War of the early 1990s, the American invasion of 2003, and the ISIS takeover of large swaths of Iraqi territory during 2014. The number of Iraqi refugees in Jordan is hard to ascertain, as many are middle class families who live in urban areas and do not register with the government or UN, but over 133,000 had registered prior to 2011, and more than 66,000 registered Iraqi refugees live in Jordan today (UNHCR, 2022c). As Syrians began to arrive *en masse*, Jordan's historic orientation as a welcoming host to fellow Arabs fleeing violence served as an important contextual feature in the government's policy orientation.

b. Refugee inflows and the initial response

Displaced Syrians began fleeing to Jordan shortly after the outbreak of Syria's civil war in 2011. While their numbers were relatively limited at first, the number of Syrian refugees in Jordan surged as the conflict intensified. By 2014, some 1.3 million Syrians had sought safety in Jordan, over ten percent of its population. This meant that more than one in every ten people in the country was a Syrian refugee, the highest ratio in the world, after Lebanon (Christophersen, 2022; Karasapan, 2022). Roughly half of Syrian refugees in Jordan are registered, while others live irregularly or formally under a non-refugee status.

Jordan quickly opened its borders to Syrian refugees, a move consistent with the sense of solidarity it had long extended to other beleaguered Arab neighbors (Seeley, 2012; Wilkes, 2012). Jordan had not signed the 1951 Refugee Convention, and refugees were treated under a 1998 memorandum with UNHCR (Burlin & Ahmad, 2020). However, working within this framework, the government granted Syrians access to a generous set of rights, including access to public health services and free school, though they could not obtain formal work permits, a sensitive issue that would serve as a key aspect of strategic interaction with the World Bank, as discussed below (Francis, 2015; Seeley, 2012). Jordan's long history as a host to refugees in the region also shaped its openness to receiving Syrians, who joined the over two million Palestinian refugees who had resided in Jordan for decades, most of whom had been granted citizenship, as well as tens of thousands of Iraqis.

Initially, Syrian refugees lived primarily in camps administered by humanitarian agencies, but over time, the vast majority moved to cities and towns in search of more permanent settlement. As they fled the war, most Syrians first found shelter and emergency support at UNHCR refugee camps near the border. The biggest of these camps, Zaatari, at one point hosted 120,000 people, making it one of the largest 'cities' in Jordan (Carlisle, 2022). Over time, however, as conditions in Syria worsened and prospects for return declined, refugees saw that rebuilding their lives would be better served by leaving camps and trying to integrate into Jordanian society. As of November 2022, 535,000 of the 670,000 registered Syrian refugees in Jordan – 80 percent – lived outside of camps (UNHCR, 2023b), where they sought to get jobs, send their children to public schools, and access health, energy, water, and other services.[55]

The movement of Syrian refugees into urban areas quickly raised fiscal, financial, and political pressure on the Jordanian authorities, threatening the openness refugees had initially received. The influx of new users strained the availability of health care, education, water, and energy, and threatened to overwhelm the capacity of core utilities like water treatment and waste management systems (Khawaldah & Alzboun, 2022). It also saddled the government with surging fiscal costs, left it struggling to pay for publicly funded services, and saw the public debt nearly double from $19 billion at the start of the crisis in 2011 to over $35 billion in 2016 (Luck, 2016). Further, many Jordanians feared they would lose their jobs or see their incomes drop

[55] As noted above, it is believed that over 1.3 million Syrian refugees in total reside in Jordan, roughly half of whom have not registered with UNHCR or the government.

due to refugees willing to work for lower wages (Stave & Hillesund, 2015). Thus, even as Jordan continued to allow Syrian refugees to enter its territory, growing concern about their impact on services, public finances, and the availability of jobs created sensitive policy questions on how the government would handle refugees' presence over the longer-term.

c. Situating Jordan in exceptional finance theory: Expectations and outcomes

Having introduced the case and country context, this section positions Jordan vis-à-vis my theory of exceptional finance and costly development action. The purpose is to set out what my theory would expect the Jordanian authorities and World Bank officials to do in their strategic interaction on Jordan's support for Syrian refugees, explore the positions that Jordan and the World Bank actually adopted in their negotiations, and then describe the long-term policy response that Jordan decided to take toward refugees. As the section will show, consistent with my argument, the offer of IFI exceptional finance played a key, causal role in convincing Jordanian authorities to preserve and expand support for displaced Syrians. Other factors – such as Jordan's long history of hosting refugees from the region and its foresight of the future, indirect benefits that contributing to this global public good would yield – also contributed to its supportive posture. But it was the World Bank and key western donors' willingness to offer exceptionally advantageous financial terms that convinced the Jordanian authorities to agree to and undertake a series of sensitive pro-refugee policy reforms and programs.

i. Theoretical expectations

My theoretical expectations are clear for the Jordan case. The preferences of Jordanian and World Bank officials should have been close enough that the Bank could use exceptional finance to compel Jordan to adopt pro-refugee conditions. My theory holds that countries typically favor costly development actions like contributing to global public goods but are unlikely to prioritize such actions for the use of scarce foreign aid. The discussion of the country context above suggests this would likely hold true for Jordan. The country had a long history of hosting refugees from Palestine and Iraq and had opened its borders and granted generous allowances to Syrian refugees at the outset of their arrival, but it had also incurred significant economic costs in doing so, creating incentives to limit its support going forward.

The arrival of Syrian refugees in Jordan also coincided with, and contributed to, IFIs' growing recognition of their key role in addressing protracted refugee situations. This shift in thinking is best illustrated by a major 2016 report in which the World Bank argued that addressing the socioeconomic effects of forced displacement fell squarely within its development mandate and represented an issue on which the institution should strongly engage, in collaboration with humanitarian organizations like UNHCR and other partners (World Bank, 2017a).[56] This institutional shift gave World Bank officials clear incentives to encourage Jordanian authorities to preserve and expand refugee support . In strategic interaction on IFI programming, my theory would thus expect Jordan to demand exceptional financial incentives to reduce the

[56] The report was launched in 2016 but published in 2017.

opportunity costs of contributing to the global public good of refugee support. It would also expect World Bank officials to willingly provide these incentives in view of the increasing priority they assigned to that costly development action. It is to this strategic interaction that I now turn.

ii. Strategic interaction and policy response

While King Abdullah II was rhetorically supportive of Syrian refugees, and recognized the issues they faced, he was also firm about Jordan's limited capacity to provide support. He reiterated Jordan's commitment to keep its border open to those fleeing the war, but expressed concern that Jordan could not meet their needs – or, more importantly, its own citizens' needs – without new funding. He called on the international community to step up and fill the gap. The public mood was not much different. While they opened their borders to Syrians fleeing harm, Jordanians were skeptical that Jordan could provide for both refugees and nationals. Indeed, as a World Bank staff member preparing a project in Jordan during this period observed, many Jordanians began to express frustration that Syrians received better treatment than they did as citizens (personal communication, December 7, 2022).

When faced with the decision of how to manage Syrian refugees over the longer term, Jordan's King and senior officials thus knew the policy approach they adopted would have significant political implications. As noted above, by 2015, the vast majority of Syrian refugees lived outside of camps in cities and towns. Their consumption strained the availability of health care, schools, and other services, as well as the capacity of key utilities like energy, water treatment, and waste management. This took a considerable toll on Jordan's increasingly shaky finances. In 2016, Jordan spent an estimated one-quarter of its budget on refugees (Doucet, 2016).

As tensions mounted, King Abdullah II made clear that further socioeconomic integration of Syrian refugees would hinge on expanded financial assistance from the international community to reduce pressure on the government and increase benefits for Jordanian citizens. The King shared his view with remarkable candor. Ahead of a February 2016 donor conference to address the Syrian crisis, he said that 'the psyche of the Jordanian people…[has] gotten to boiling point [sic]', and that, 'sooner or later, I think, the dam is going to break' (Doucet, 2016). Despite Jordan's decades of welcoming refugees, the King observed that, 'for the first time, we can't do it any more'. Appealing for increased international funding, Abdullah II said the impact of Syrians had 'hurt us when it comes to the educational system, our healthcare' and that, for support to continue, it would 'be very important for Jordanians to see, is there going to be help – not only for Syrian refugees, but for their own future, as well' (Doucet, 2016).

Jordanian officials conveyed that while they would allow Syrians to remain in the country and access basic services, more forward-leaning policies would not be feasible unless donors offset the costs. Speaking specifically about working permits – to which only one percent of working age Syrian refugees in Jordan had access in early 2016 – Abdullah II highlighted the political sensitivity of the issue. Opening the labor market to them, an interviewer recalled the King saying, 'would be deeply unpopular unless he [could] also offer opportunities for his own

people' (Doucet, 2016). Providing services and utilities to refugees was difficult. Exposing Jordanian workers to competition from Syrians was politically toxic.

As 2016 began, Jordan's position in strategic interaction with IFIs and other donors was thus. It would continue to provide the global public good of refugee support, hosting and caring for Jordanians so that other countries – particularly rich, Western ones – would not have to, but it would limit this support in order to stem the fiscal costs and political backlash. Jordanians had sizable development needs of their own, and the Kingdom was not willing or politically able to increase socioeconomic opportunities for Syrians at the expense of its own people. Inducing the costly development action of expanded refugee support would require donors to help Jordan simultaneously pursue its own development agenda. To square the circle, they needed an exceptional form of financial support to sufficiently sweeten the pot.

If Jordan was increasingly reticent to support Syrian refugees, IFIs were equally fervent in their view that this support should be expanded. Amid rising opposition, World Bank officials urged Jordanian leaders to increase services and economic opportunities afforded to displaced Syrians, reflecting the Bank's growing institutional focus on promoting global public good provision, broadly, and refugee support, more specifically. In particular, Bank staff pressed the authorities to offer formal working permits that would allow Syrians laboring informally to come out of the 'shadows'. To build its case, the World Bank published analysis showing that formalizing Syrian workers would not only reduce predatory treatment by employers who hired them off the books but increase refugees' contributions to tax revenue and Jordan's broader economic productivity (Verme et al., 2016).

As noted above, Jordanian officials, including King Abdullah II, strongly resisted entreaties to open labor markets to Syrian refugees. Officials insisted that granting refugees access to formal work would trigger a political backlash among Jordanians who would face risks of losing jobs to Syrians willing to work for lower wages. World Bank officials, for their part, cited their analysis to stress that Jordanian and Syrian workers would not compete for similar jobs, with refugees likely to gravitate toward lower-skill, lower-wage jobs that national workers tended to avoid. Thus, even as other issues remained very much in play, a World Bank economist working on the issue at the time recalls that access to formal working permits became a central point in strategic interaction between Jordan and the World Bank over the level and type of refugee support that Jordan would provide (personal communication, December 7, 2022).

To surmount this challenge of preference misalignment, the World Bank, donors, and Jordan sought to find a way to offset the costs Jordan would incur by granting working permits and extending other forms of support to Syrian refugees.[57] A World Bank Middle East and North Africa Region official who helped lead this effort recalled that loan pricing quickly emerged as a sticking point in the discussions (personal communication, May 24, 2023). While Jordan

[57] This section draws on the author's personal experience working on the establishment of the Concessional Financing Facility in 2016 as well as informal discussions with World Bank, donor, and Jordanian officials who negotiated the Facility's establishment. Lebanon was also involved in these discussions but is not analyzed here.

demanded grants – that is, non-repayable IFI financing – for pro-refugee programming and policy reform, IFIs and donors opposed this. They argued that while Jordan was certainly facing rising fiscal costs and a fast-growing debt burden from hosting refugees, it was also an upper-middle-income IBRD member country that borrowed money from the World Bank at non-concessional interest rates. While these rates were lower than what Jordan got when it issued bonds in international capital markets, they were higher than the zero interest rates that the World Bank and other IFIs reserved for their poorest, IDA members, countries with far lower levels of per capita GDP than Jordan. IFIs and their main shareholders, like the United States, Britain, Japan, and others, considered shifting Jordan from IBRD interest rates to flat out grants a bridge too far.

However, donors were open to an intermediate, still highly exceptional financial entreaty: offering Jordan concessional, IDA-level interest rates on loans for pro-refugee programs and policy reform. The World Bank, other IFIs,[58] and key western donors offered to create a trust fund that would provide Jordan with discounted loan pricing for IFI projects that benefited both Syrian refugees and, crucially, the Jordanian host communities in which they lived. This mechanism, the Concessional Financing Facility (CFF),[59] would use grants from CFF donor countries to 'buy down' the interest rates on such project loans from the levels Jordan normally paid as a middle-income, IBRD country to the concessional, no-interest level the World Bank typically reserved for poorer IDA members. It would do so by including CFF grant financing in the larger, overall World Bank financing package for a pro-refugee program. This would increase the amount of the program's financing package, but because the recipient only had to repay the loan portion – not the donor grant from the CFF – the interest rate on the project would decline from its usual non-concessional IBRD level to the concessional rate charged to IDA borrowers.

The impact of the CFF was immediate, clear, and significant. Following the critical February 2016 London donor conference cited above, the CFF was finalized in April 2016 at the Spring Meetings of the IMF and World Bank in Washington (World Bank, 2016a). Nine donors[60] provided over $100 million to the fund, which would be channeled as concessional finance for IFI programs that benefited refugees and host communities. In exchange for this offer of exceptionally cheap finance, Jordanian officials moderated their opposition to further pro-refugee policy reform. World Bank officials who led negotiations with Jordan on labor market policy concurred that the dialogue behind the launch of the CFF led Jordan to soften its position on the politically charged issue of providing formal work permits to refugees and commit to donors that it would adopt the reform in exchange for concessional finance from the soon-to-be-establish Facility (personal communication, December 7, 2022; January 12, 2023).

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[58] These included the European Bank for Reconstruction and Development, European Investment Bank, and Islamic Development Bank. For simplicity, but without detracting from the analysis, I focus here on the World Bank.

[59] While the CFF was initially created to help Jordan and Lebanon deal with the Syrian crisis, it later evolved to the Global Concessional Financing Facility discussed in the cases on Colombia and Peru, with an aim to offer concessional IFI lending to help middle-income countries anywhere in the world deal with a sudden refugee influx.

[60] These included Canada, Denmark, European Union, Germany, Japan, Netherlands, Norway, the United Kingdom, and the United States. Sweden would soon join the Facility as its tenth donor member.

In July 2016, this agreement became formal, when the Jordanian government agreed to provide 130,000 formal working permits to Syrian refugees and CFF donors approved a grant to support the reform (World Bank, 2016b). The provision of working permits was included as a policy condition in the $300 million World Bank-financed *Economic Opportunities for Jordanians and Syrian Refugees Program-for-Results* project, which the World Bank Board approved two months later, in September 2016 (World Bank, 2016c). The program featured an IBRD loan on normal, non-concessional financial terms and a $51 million grant from the CFF, which reduced the project's overall interest rate to concessional levels. This considerably reduced the amount of money Jordan would have to repay the Bank over the life of the loan and marked one of the first times an IBRD country had received a World Bank loan with interest rates on IDA terms. Importantly, the project also sought to create opportunities for Jordanian host communities by, *inter alia*, introducing measures to attract foreign investment into special economic zones that produced exports with preferential access to the European Union. Coupled with concessional support through the CFF, this further mitigated the risks Jordanian officials faced of incurring political backlash for granting work permits to refugees.

The policy response Jordan adopted following strategic interaction with IFIs and donors on the issue of refugee support can be summarized as follows. In exchange for a discounted World Bank loan financed in part by the CFF, the government relented on a policy concession it had strongly opposed, as vocalized by King Abdullah II, the leader of the nation. Exceptional finance from the CFF also supported a series of subsequent IFI programs to expand refugee access to education, energy, health, and clean water. These programs also all benefited Jordanians by improving the quality of these services (Global Concessional Financing Facility, 2023). Cheaper loan pricing helped convince the Jordanian authorities to adopt pro-refugee policies they previously resisted, and opened the door for a slew of pro-refugee programming. Following the approval of CFF support for a health services project in April 2017, Imad Fakhoury, Jordan's then-Minister of Planning and International Cooperation, made clear what a significant role the Facility had played in leading his country to expand its support for Syrian refugees:

> Jordan is honored to have provided refuge for so many Syrians. But it has come at a cost. We cannot let our basic services and infrastructure be overwhelmed, as Jordanians and Syrians alike would suffer. With the support of the [Concessional Financing] Facility, we now have the long term financing we need to more affordably build our resilience by expanding basic services and strengthening infrastructure (World Bank, 2017b).

iii. Assessing outcomes relative to theoretical expectations

The Jordan case aligns with, and provides strong empirical support for, my theoretical argument. I have argued that countries often need a nudge – in the form of side payments or penalties – to adopt the policy conditions that IFIs propose to them. I have also argued that these exceptional IFI financial incentives are likely to work best in the case of costly development actions, like refugee support, which reflect top IFI priorities that recipients generally support but do not typically prioritize for the use of aid. This was the strategic

scenario in which World Bank officials found themselves when encouraging the Jordanian government to expand socioeconomic support for Syrian refugees. Jordan had opened its borders to Syrians fleeing war-torn country and provided shelter and other basic services. Yet, as a middle-income country, Jordan also had significant development needs of its own.

Hence, when faced with the prospect of providing working permits that would allow Syrians to enter the labor market, King Abdullah II said that this was a step too far. He stressed that further support for Syrians would hinge on the international community's willingness to step up with additional financial assistance that reduced the fiscal and financial pressure of hosting refugees and also provided benefits to Jordanian nationals. The World Bank and key western donors responded with a first-of-its-kind financial facility, the CFF, that deviated in an important way from the Bank's traditional financial model. The CFF provided concessional loans to Jordan, an IBRD country, on an exceptional basis to slow its rising debt burden and allow it to more affordably pursue development programs that integrated Syrian refugees into Jordanian society. Crucially, CFF-supported programs also provided Jordan with cheap finance to expand the quality of services and availability of economic opportunities for its own citizens.

There is clear evidence that the offer of exceptional finance through the CFF played a causal role in driving Jordan's change of position on the working permits issue. In February 2016, only two months before Jordan agreed to issue permits to refugees, King Abdullah II said in an interview, quoted above, that his country was at a 'boiling point' and that opening the labor market to Syrians would be deeply unpopular unless he could also offer benefits to his people (Doucet, 2016). That is precisely what CFF support allowed him to do. By offering concessional loans for a World Bank program focused on creating job opportunities for Syrians and Jordanians, exceptional finance from the CFF reduced the opportunity costs of borrowing for refugees and provided the King and his leadership team adequate political cover to adopt a reform they had previously viewed as politically untenable and to adopt further pro-refugee programs in the subsequent months and years. World Bank officials who led the dialogue with Jordan in the mid-2010s stressed that the CFF helped trigger Jordan's progressive shift on refugees' labor rights, while the former Jordanian Minister for International Cooperation publicly confirmed that the Facility had enabled his country to expand support for refugees across a number of development areas.

d. Alternative explanations

While the sections above provide strong evidence that exceptional finance drove Jordan's expanded refugee support, it is important to explore other factors that may also explain this progressive shift. Perhaps the most compelling alternative explanation is Jordan's long history of hosting large numbers of refugees from across the Middle Eastern region. As documented above, from its earliest days as a state, Jordan had opened its doors to Palestinians fleeing wars with Israel, and the decades-long presence of more than two million Palestinian refugees – most of whom had become naturalized citizens – made an indelible mark on Jordanian politics, economics, culture, and society writ large. The country had also opened its doors to three waves of Iraqi refugees in the early 1990s, early 2000s, and mid-2010s, and while their numbers

were far lower than those of the Palestinians, Iraqis had nonetheless assumed an important role in Jordan's political, economic, and cultural milieu (Twigt, 2022). At the outset of the Syrian crisis, Jordan's role as a safe haven for fellow Arabs fleeing war and oppression was inscribed on the country's public conscience and global image: Accepting Syrians was thus 'natural' and consistent with the world's view of Jordan and the view Jordanians had of themselves.

Second, Jordan understood the value of contributing to global public goods and knew it could parlay these contributions into future benefits from the international community. Jordan spent decades positioning itself as a bastion of stability in a turbulent region, including taking a moderate approach to Israel and serving as a broker for the United States and other Western powers seeking to foster Israeli-Palestinian peace (Ryan, 2003). After 9/11, Jordan's pro-Western posture and security capacity made it an essential partner in the U.S. war on terror and Washington's efforts to root out militantism in the region (Gutkowski, 2016). These geostrategic alliances allowed Jordan to reap material rewards in the form of foreign aid that, as noted, formed a tenth of the country's economy. It also meant that Jordan's inclination to contribute to the Western priority of supporting Syrian refugees was part and parcel of a foreign policy that had served the country well across much of its independent history.

My assessment is that these other factors are consistent with, and additive to, my argument, rather than alternative explanations that could have by themselves produced the same outcome. A culture of hosting refugees is what initially inclined Jordan to open its doors to Syrians fleeing war. A history of strong relations with the west served as a baseline for constructive negotiations and left the World Bank and Jordan's donor countries open to special financial treatment (although it is important to note that Lebanon was also fully involved in these discussions despite its frosty relations with the United States). Further, Jordan's knowledge of how to instrumentalize contributions to strategic western objectives for considerable economic benefits likely inclined it toward reaching a deal that would leave its IFI and donor patrons satisfied. However, the reflections from King Abdullah II cited above make clear that Jordan had drawn a red line on the issue of working permits that he, as the country's ultimate arbiter of power, was unwilling to cross unless the country's international partners provided financial benefits that would make this and other pro-refugee reforms acceptable to the King's domestic political audience. It was the World Bank and other IFIs' provision of exceptional finance in the form of concessional interest rates that, *in combination with* a track record of hosting refugees and strategic relations with the west, led Jordan to ease this opposition and expand socioeconomic support for its embattled Syrian guests.

e. Conclusions and theoretical implications

The central finding of this case study is that IFI exceptional finance played a necessary, causal role in Jordan's decision to expand support for Syrian refugees. Jordan was on a path to restricting this support, as demonstrated in clear statements by King Abdullah II in February 2016 that the country had reached a 'boiling point'. It reversed course and agreed to the costly development action of issuing work permits to Syrian refugees only when the World Bank, Western donors, and other IFIs created the CFF to offer concessional loans for programs

supporting this and other pro-refugee reforms. Crucially, the loans also promised benefits for Jordanian citizens, further reducing the potential political backlash from domestic constituencies aggrieved by their government's support for non-nationals. Absent exceptional finance from the CFF, Jordan would not have expanded, and may have even reduced, its social, economic, and other forms of support for displaced Syrians, even as the country's history as a host to refugees and the economic importance of its geostrategic alliances with Western powers also shaped its approach.

These findings highlight conclusions that have implications for my theoretical argument. One concerns the role of domestic politics in shaping the decisions of recipient leaders on costly development action. Despite the important political risks Abdullah II faced, Jordan's relatively stable political climate, as well as his role as the ultimate arbiter of power within it, allowed the King to take a longer-term view of the costs and benefits of expanded refugee support. This suggests that leaders in countries with less stable politics, who face more serious threats to their survival, may discount the value of policies with limited political appeal and less certain future benefits and instead prioritize those that deliver clearer benefits over shorter time horizons. Jordan shows how domestic politics can mediate the effect of exceptional finance on recipient decisions on costly development action, a dynamic that will become even more clear in the case study on Colombia and shadow case study on Peru in the following chapter.

Another initial conclusion concerns the role of exceptional finance in the form of concessional loans. While the shift from non-concessional to concessional lending may seem a modest incentive, it is difficult to overstate the significance of this exception to IFI, and specifically World Bank, policy. The premise of establishing IDA in 1960 was that the poorest countries faced such difficult circumstances that reducing poverty and accelerating development required receiving aid on more generous terms than in middle-income IBRD countries. With the launch of the CFF in 2016, however, the international community said that, in some cases, challenges facing middle-income countries were so severe, and their contributions to global public goods so vital, that they needed and deserved aid on terms reserved for poorer nations. In establishing the CFF, the World Bank and donors showed they viewed the support Jordan provided to Syrian refugees as worthy of exceptional financial support via concessional loans.

The establishment of the CFF was significant in at least three respects – one practical, one symbolic, and the other strategic – all of which impacted Jordan's approach to Syrian refugees. In practical terms, the offer of concessional finance made IFI-financed pro-refugee programs less costly, as it reduced the debt Jordan incurred in adopting these programs, thereby preserving resources for its other development priorities, a benefit highlighted in the statement by Minister Fakhoury. Symbolically, Jordan gained prestige by joining Lebanon – which the CFF also funded during the Syrian crisis – as one of the first two IBRD countries to receive IDA-level funding. This special treatment signaled the high esteem in which the international community held their countries' contributions to global public goods, something King Abdullah II had demanded when he called for the international community to recognize and reward Jordan for its sacrifice. It was also a distinction that the King and other Jordanian officials could tout to the Jordanian people as a tangible benefit of pro-refugee reform.

Strategically, the CFF shifted the calculus of the World Bank and Jordan, and sent a message to other aid recipients. For the World Bank, the successful experience of deploying concessional finance to induce pro-refugee reform in Jordan showed that targeted deviations from normal modes of aid provision could help induce prized reforms from other recipients. The Bank used this approach three years later to successfully induce pro-refugee reform in Colombia, as I will explore in the case study in the next chapter. A similar approach can also be seen in the IDA refugee window, the Crisis Response Window, the Prevention and Resilience Allocation, and other facilities discussed in earlier chapters. Though it manifests in different ways, the strategic logic of exceptional finance has now manifested across a range of World Bank efforts to promote top institutional priorities, many of which coincide with the costly development action of my theory: peace, prevention, and global public goods.

Jordan, for its part, recognized that the donor gratitude embedded in CFF support was a bargaining chip it could leverage to secure benefits in future interactions with IFIs and Western powers on other issues. This was a practice Jordan had consistently deployed over decades of using strategic alliances to induce large flows of foreign aid, but it opened a new door for Jordan to put its diplomatic deft to financial use. In 2019, Jordan leveraged the good will it had generated from pro-refugee policy reforms supported by the CFF to secure a rare, donor-backed guarantee that saw the United Kingdom and Saudi Arabia agree to repay a certain portion of a World Bank loan if Jordan defaulted, which took this risk off the Bank's balance sheet and allowed it to exceed Jordan's single-country borrower limit and provide the country with additional, much-needed cash (World Bank, 2019a). Beyond the gains to the country itself, Jordan's experience with the CFF signaled that playing ball on global development priorities could yield direct and indirect benefits to other savvy aid recipients, like Colombia, a case I turn to in the following chapter.

7. Colombia: How Indirect Benefits Bolster Exceptional Finance to Induce Costly Reform

In 2018, hundreds of thousands of Venezuelan refugees[61] began streaming into Colombia. Faced with economic collapse, violence, and the increasing impossibility of accessing food, medicine, and other necessities, Venezuelans concluded that life at home had become untenable and made the painful choice to flee their country in search of stability abroad. Neighboring Colombia served as their initial port of call, but many continued their journey south, to Peru and other South American countries (UNHCR, 2019). This influx of humanity posed immediate challenges to Colombian policymakers: With considerable development needs of their own, how could either country support Venezuelan refugees ? The political questions were no less stark: How could officials justify using resources for non-nationals when their own people required spending and investment that they already struggled to afford?

On the other side of these questions was the global development community led by influential Western donors and Bretton Woods IFIs. These actors had their own interests in ensuring Venezuelans could not only safely settle in new locations but integrate into national systems and become productive members of host country societies. As shown in the Jordan case study in the previous chapter, the onset of the Syrian civil war and refugee crisis in the early 2010s led Western donors and IFIs to press host country governments to do more than open their borders to those fleeing conflict, violence, and persecution, and triggered a strategic shift within the World Bank that saw forced displacement emerge as a key institutional priority (Jones, 2015; Westall, 2013; World Bank, 2017a). Similar to Jordan, donors and IFIs encouraged Colombia to offer refugees basic services such as health and education, as well as legal rights to work, move, and settle (World Bank Group, 2018a). Whether driven by political motives to keep refugees out of their own countries or moral and development imperatives to give displaced people a chance at a better life and smooth their socioeconomic impact on host countries, donors and Bretton Woods IFIs urged Colombia to address the crisis by embracing their Venezuelan arrivals (Reuters, 2019).

Exceptional finance played a key role in the World Bank's strategic approach to inducing Colombia to expand socioeconomic support for Venezuelan refugees. In 2019, the World Bank, along with key donor backers, offered the country support from the Global Concessional Financing Facility (GCFF). As discussed in the last chapter, the Facility was initially established in 2016 as a regional mechanism to help Jordan and Lebanon address the inflow of Syrian refugees. However, in September 2016, donors assigned the CFF a global mandate and charged it with helping middle-income countries across the world address refugee crises by providing concessional, zero interest rate loans for IFI programs that supported both refugees and their

[61] The displaced Venezuelans who began to flee Venezuela en masse in the late 2010s are referred to, variously, as both 'refugees', 'migrants', and the more contrived term of 'Venezuelans displaced abroad' by international actors. In this chapter, I refer to displaced Venezuelans as refugees, both for simplicity of the text and because, unlike with migrants, the desperate conditions that drove their displacement left little real choice between staying or going.

hosts (World Bank, 2016d).[62] Just as it had in Jordan, IFIs involved in the GCFF hoped offering other middle-income countries lower-than-normal interest rates would offset disincentives host countries faced when deciding whether to adopt pro-refugee programs and reform.

The strategic play of offering Colombia exceptional finance worked, but as I will show, its success was contingent on other factors. After debating a more restrictive approach, Colombia ultimately seized GCFF support and adopted a policy framework that deepened the integration of Venezuelan refugees, just as Jordan had following the initiation of the then-CFF. However, a host of other factors beyond exceptional finance proved vital in convincing the Colombian government it would do better by taking GCFF support and adopting pro-refugee programs and reforms than reverting to an alternative, more restrictive approach. The other factors that shaped the strategic environment in Colombia were in some ways similar to those that emboldened King Abdullah II to embrace exceptional finance in Jordan, including domestic political stability that empowered the executive to take risks and the country's understanding of the indirect benefits of contributing to global initiatives. A particularly motivated World Bank country director also made the government's utilization of the GCFF and adoption of pro-refugee reforms a priority, and was willing to incur the extra costs – in terms of time and political capital – to ensure the project teams he oversaw did the same.

I further explore the role of these additional factors on costly development action decisions through a shadow case study of Peru toward the end of the chapter. Peru was South America's second-largest recipient of Venezuelan refugees, after Colombia, and shared a range of socioeconomic similarities with its Andean neighbor that would be expected to affect its willingness to accommodate the new arrivals. Crucially, Peru also received an offer of GCFF support. However, as we will see, differences on key, non-exceptional finance-related factors that eased the path to pro-refugee reform in Colombia ultimately led Peru to decline the GCFF and take a more restrictive policy approach. While evidence suggests that cheaper World Bank loans left Peruvian officials more inclined to step-up refugee support, this exceptional incentive was not enough to overcome domestic hurdles to costly development action.

The comparison of Colombia and Peru thus provides an important opportunity to test my theoretical argument on the role of IFI exceptional finance in inducing refugee support in aid recipients. We see in Colombia strong support for my argument, reinforcing the encouraging findings from Jordan. The alignment of government and World Bank preferences on the costly development action of refugee support created a strategic environment in which a deal was possible: The government did not strongly oppose supportive measures, but it also did not view expanding the rights and opportunities of refugees as much of a priority as the World Bank did. Consistent with my theoretical expectations, the offer of cheaper-than-normal loans from the GCFF helped overcome this preference misalignment and provided the Colombian government the needed nudge to expand socioeconomic opportunities for Venezuelans. However, the support for my theory is tempered somewhat by the criticality of other factors in getting

[62] As a staff member at the World Bank, I helped coordinate the GCFF and organized its launch at the UN General Assembly on September 21, 2016.

Colombian officials over the line, namely their domestic political space, international orientation, and an enthusiastic push from the World Bank director on the ground, all of which were absent in Peru, which decided against leveraging exceptional financial incentives to expand refugee support. The case study research in this chapter thus further illustrates the strength of my theoretical argument but also shows, perhaps more clearly than in the Jordan chapter, the scope conditions that can serve to limit its effect.

The structure of the chapter mirrors that for the case study on Jordan. I first briefly discuss the Colombian country context on the eve of the Venezuelan refugee crisis. The next section describes the nature of the influx and the Colombian government's initial response. Third, I situate the situation relative to my theoretical expectations, explaining the approach my argument would anticipate the Colombian authorities taking on the refugee issue before detailing how strategic interaction between Colombia and the World Bank played out in practice and the long-term policy approach Colombia ultimately adopted. After charting the Colombian experience, I provide a brief shadow case study of Peru, showing how the absence of factors conducive to the uptake of GCFF support in Colombia contributed to different outcomes in its Andean neighbor. The penultimate section explores alternative explanations to my theory on the role of exceptional finance in shaping Colombia's decisions on the costly action of refugee support, while the final section draws conclusions, assesses implications for the strength and scope of my argument, and highlights avenues for future research.

a. Country context

This section provides an overview of the Colombian country context on the eve of the Venezuelan refugee crisis. Located in the Andean region, with coasts on the Pacific and Atlantic oceans, Colombia's population of 51 million makes it the second-most populous country in South America. Though also historically dependent on commodity exports, prudent macroeconomic management has enabled economic stability and allowed Colombia to avoid the crises that have plagued its regional peers. Steady growth has seen the country achieve a per capita GNI of $6,190, making it a middle-income economy and World Bank IBRD member (World Bank, 2023e). However, conflict has long held back broader development gains, especially in poor rural areas, with a four-decade civil war against the *Fuerzas Armadas Revolucionarias de Colombia* (FARC) guerrilla group taking the lives of over 200,000 people and displacing nearly six million until a peace agreement in 2016 (Klobucista & Renwich, 2017).

Politically, Colombia is a presidential democracy in which technocratic approaches to macroeconomic and other aspects of public policy coexist with a fractured party system. The Liberal and Conservative Parties dominated politics from nearly the birth of the republic in 1810 until the election of President Alvaro Uribe on a third party ticket in 2002. The two-party system allowed Colombia to avoid the frequent coups and dictatorships that beset its Latin America peers (Albarracín, Gamboa, Mainwaring, 2018). Whereas *caudillo* strongmen and unelected juntas were the norm elsewhere in the region, Colombian presidents entered and exited office to the drumbeat of quadrennial elections. While they fought bitterly over policy and the spoils of office, political dominance by the Liberals and Conservatives made Colombia a beacon of

democratic stability in the region (Moreno, 2005). Still, the growing disaffection with the Liberals and Conservatives that culminated in Uribe's triumph in 2002 ushered in a fractured party system in which parties serve more as vehicles for individual leaders than torch-bearers of consistent ideological and political programs (Dargent & Muñoz, 2011).

While its political system has in some ways been upended, partisan fractionalization has not upset the stability that has long characterized Colombian policymaking (Albarracín, Gamboa, Mainwaring, 2018). This is particularly evident in the macroeconomic domain. Independent technocrats continue to oversee monetary policy at the *Banco de la República*, Colombia's central bank, and president after president in the post-two-party era have continued to select highly qualified individuals to run the finance ministry and planning department (Dargent, 2011; Dargent, 2015). The sway of competent, long-serving bureaucrats within these and other federal agencies has also served as a bulwark against rapid swings in policy, while the fractionalization of the party system itself has helped to moderate policy by preventing presidents from advancing their legislative agendas without forging coalitions and compromise (Carroll & Pachón, 2016; Stuenkel, 2022). Profound changes to Colombian democracy over the last two decades have thus reinforced consistent approaches to key areas of policy.

b. Refugee inflows and the initial response

Relative political stability, policy continuity, and the influential role of technocrats in the policymaking process characterized the Colombian context as Venezuelan refugees began to arrive in 2016. The influx of refugees in Colombia and other countries in the region was driven by the economic, political, and security collapse that began in Venezuela in the early 2010s and continues today (O'Neil, 2018). The 2014 crash of global prices for oil, which contributed some 90 percent of Venezuelan export revenue and over 60 percent of the budget, hindered the government's ability to mitigate the effect of economic mismanagement by using massive oil revenue to stabilize the exchange rate or finance social welfare programs for the poor and working classes (Rodríguez, Morales, & Monaldi, 2012). As oil prices dipped, fiscal deficits and dwindling foreign reserves saw the currency plummet and contributed to inflationary spikes. Inflation curtailed imports, eroded purchasing power, and over time made it difficult for Venezuelans to secure basic goods, like food and medicine (O'Neil, 2018).[63] In 2016, on the eve of the refugee exodus, three-quarters of Venezuelans lost an average of 19 pounds (Landaeta-Jiménez et al., 2016).

These economic troubles were fueled by political polarization and dysfunction. After the opposition won elections and took control of the National Assembly in 2016, President Nicolás Maduro stripped the legislature of its powers, removing the opposition's only foothold in national politics and its ability to check presidential power (Graham-Harrison & López, 2017). Political dysfunction bred a collapse in governance, which saw violence skyrocket. In 2017, Venezuela had the world's second-highest homicide rate, Caracas (Ayuso, 2018; Venezuelan

[63] A Venezuelan refugee in Cúcuta, Colombia, recalled undergoing surgery to remove a hernia unanesthetized because his doctor in Venezuela lacked even this basic medicine (personal communication, July 2019).

Violence Observatory, 2018). That same year, an estimated 90 percent of crimes went unpunished, with impunity for human rights violations nearly reaching 100 percent (Ayuso, 2018). The state also perpetrated acts of aggression, with 106 civilians reportedly dying each week in 2017 due to police or military force, while the U.S. government has sanctioned senior officials for alleged ties to drug trafficking and other crimes (Ayuso, 2018; U.S. Department of the Treasury, 2018; Venezuelan Violence Observatory, 2018).

Against this backdrop of economic collapse, humanitarian crisis, and rising violence, millions of Venezuelans decided that life had become unlivable at home and decided to seek safety abroad. While many had already taken the decision to leave, the exodus of Venezuelans began in earnest in 2017, when the number of Venezuelan asylum seekers trebled to nearly 150,000 from 45,000 in 2016 (UNHCR, 2023c). In 2018, Venezuelans displaced abroad rose by orders of magnitude, with the number of those classified by UNHCR as in need of international protection rising from 0 in 2017 to nearly 2.6 million, before climbing further to 3.6 million in 2019, and 4.4 million in 2020 (UNHCR, 2023c). As of early 2023, some 7.13 million Venezuelans had fled their country, the second-largest refugee crisis in the world, behind only Ukraine and having eclipsed Syria (UNHCR, 2023d; UNHCR, 2023e; UNHCR, 2023f).

The vast majority – some five million – of Venezuelan refugees remained in Latin America (UNHCR, 2022d). Their primary destinations have been Colombia and Peru, which host 1.8 million and 1.3 million Venezuelans, respectively, representing over three percent of each country's population (Chaves-González, Amaral, & Mora, 2021; UNHCR, 2022d). The numbers then dip considerably, with Ecuador, the United States, and Chile hosting 514,000, 465,000, and 448,000 Venezuelans respectively (UNHCR, 2022d). Colombia's extensive border with Venezuela made it refugees' most accessible port of call, and the country's policy response would play an essential role in the fate of most Venezuelan refugees.

Initially, Colombia adopted a relatively welcoming approach to the influx of displaced Venezuelans and took immediate steps to legalize the status of different 'types' of Venezuelans in their territory. In 2017, as inflows accelerated, Colombia created two new permits (World Bank Group, 2019, p. 36). One was a border crossing permit for Venezuelans who frequently came into Colombia for short periods of time, which allowed them to stay for up to seven days within closely circumscribed border regions. The second was a more expansive special permit that permitted longer-term residence and allowed Venezuelans to work and access health, education, and financial services. By June 2018, some 442,000 Venezuelans had been registered as legal residents, a million had received border crossing permits, and a new crossing permit had been created for Venezuelans who aimed to transit through Colombia en route to other destinations (World Bank Group, 2019b, p. 36).

While generous, these early actions failed to regularize the status of most Venezuelans in Colombia and did not address the longer-term policy issues that their presence gave rise to. In Colombia, the residency permit legalized half a million Venezuelans but, with over a million in the country, this left the majority living informally and exposed to various forms of predation and vulnerability (Nunez Rabascal, 2021). Even Venezuelans living legally in Colombia had to

continuously renew their residency permits, a time-consuming, administratively burdensome process for refugees and government agencies (Yayboke et al., 2021). As the number of Venezuelans continued to spike, in February 2018 Colombian officials began to tighten their policy, imposing new controls on refugees in the country, suspending daily entry cards, and sending thousands of security agents to guard the border (Polanco & Boadle, 2018). Pressure created by continuing arrivals, as well as the tension and inconsistency in the government's initial policy response – *ad hoc* measures that toggled between permissiveness and restrictions –, made clear that Santos's successor, Iván Duque, would need to devise a long-term approach to manage the Venezuelan refugee crisis (Rossiasco & Narváez, 2023). As Santos put it a few months before leaving office when appealing for international financial assistance, '[W]e need it because this problem gets worse day by day' (Otis, 2018).

c. Situating Colombia in exceptional finance theory: Expectations and outcomes

Having explored the country context, the Venezuelan refugee inflow, and the country's initial response, this section situates the case of Colombia within my theory of IFI exceptional finance. I first outline my theoretical expectations as they relate to the issue of refugee support in Colombia, before describing the nature of its strategic interaction with the World Bank on the refugee issue and which actions and approaches Colombia ultimately adopted. As I will show, in Colombia, IFI offers of exceptional finance played a causal role in inducing the costly development action of expanding refugee support. However, a range of other factors – domestic politics, international orientation, and institutional dynamics within the World Bank itself – also played an essential role in producing that costly outcome. The Colombia case thus supports my theoretical argument but also illustrates that, in some cases, additional dynamics must be present in order for exceptional finance to achieve its desired result, a conclusion for which I offer further evidence in the shadow case study of Peru in the following section.

i. Theoretical expectations

My theory would expect the IFI offer of exceptional financial incentives to compel Colombia to adopt a supportive policy approach to Venezuelan refugees. I have theorized that contributing to the global public good of refugee support represents a costly development action that most recipients broadly support but do not view as a top priority for the use of scarce foreign aid. By contrast, I argue that IFIs see refugee support, and global public goods more broadly, as a top institutional priority. In Colombia, then, I would expect the government to express general support for Venezuelans but resist using IFI aid for this costly action over higher development priorities. IFIs, on the other hand, should see refugee support as a top priority and make it a central feature of their strategic dialogue with the Colombian.

A second theoretical expectation is that IFIs should look to leverage exceptional financial inducements to incentivize Colombia to increase refugee support. Because it centers on costly development action, this should be a strategic scenario in which the alignment of Colombian and IFI preferences was close enough to make a deal possible. That is, IFIs should have been able to use exceptional side payments or penalties to make adopting pro-refugee reforms more

beneficial to Colombia than its best available alternative, and should have been able to achieve this at an acceptable cost to IFI institutional integrity. Third, and following from the above, my argument would expect the offer, or not, of IFI exceptional finance to have played a key, causal role in the decisions of Colombian officials on whether, and to what extent, to support Venezuelan refugees. There should be evidence that the provision of IFI exceptional finance made these officials more inclined to take this costly action.

ii. Strategic interaction and policy response

In practice, strategic interaction between IFIs and Colombian officials on support for Venezuelan refugees strongly aligned with the theoretical expectations set out above. By 2018, promoting a development approach to, and addressing the socioeconomic dimensions of, forced displacement had become a leading IFI priority, as I showed in the Introduction and in the case study on Jordan. This approach carried into Colombia. When the displacement of Venezuelans began to accelerate, IFIs urged Colombia to not only regularize the status of these new arrivals. It also urged the authorities to adopt policies and undertake programs that would support their socioeconomic integration over time.

The World Bank initially promoted this position through analytical efforts. At the center of this was a major report in October 2018 that showed that Venezuelan migrants could, if allowed to work and access public services like health and education, make a substantial, positive impact on host country economies. As the report put it, ‘while migration has negative impacts in the short term, its adequate management can create economic growth in the medium and long-term’ (World Bank Group, 2018b, p. 14; author’s translation). The report added that, to achieve this outcome, Colombia needed to ‘prioritize the rapid incorporation of migrants…into the labor market and the prompt mitigation of vulnerabilities created by migration that can convert into poverty traps’ (p. 14). By showing that socioeconomic integration of Venezuelans could support Colombia’s own development objectives, the World Bank hoped to strengthen the rationale for refugee support.

The report was timed to align with Iván Duque’s preparation to take over the Colombian presidency in August 2018. Arrivals of Venezuelans accelerated in the months before Duque took office, convincing the incoming president that the refugee issue would have sizable costs and require a comprehensive substantive and financial strategy. A World Bank staff member leading the organization’s engagement on refugees in Colombia recalled in an interview that this led Duque and his team to look for experts who knew about the issue. When they saw a draft of the Bank report on the benefits of socioeconomic integration of Venezuelans, the official said, Duque’s team adopted its recommendations as one of their ten priorities for the transition (personal communication, February 7, 2023). In November 2018, the new Government adopted a National Strategy for the Response to Migration from Venezuela, a three-year plan that focused on integration of Venezuelan refugees into labor markets and national health, education, water, and sanitation systems; expanded support for refugee children; and increased refugee access to housing (Departamento Nacional de Planeación, 2018).

Despite this positive response to the Bank's proposals, the World Bank official said that Duque's team continued to insist that the international community should provide grants, rather than normal IFI loans, to help implement its strategy for Venezuelan refugees (personal communication, February 7, 2023). This left the government's policies in jeopardy: While it had adopted a progressive refugee strategy, questions remained about whether it would be able to finance its implementation. In response, the Bank did a costing exercise for Duque of continued Venezuelan inflows and analyzed the return of different investments in socioeconomic integration. The exercise made clear, the official said, that relying on grants from the international community would not provide enough resources for the government to implement its strategy. A more viable option would be to seek concessional loans, including from the GCFF, to provide the volume of finance needed without adding to the country's debt.

The Bank's financial analysis was validated by the Colombian planning department, a respected technical agency, and gave the new president's team clearer guidance on the financial implications of the crisis. The recommendation to use concessional loans instead of grants was embraced across the technocratic bureaucracy, especially at the powerful Ministry of Finance. Support from Finance was crucial, multiple World Bank officials involved in these discussions emphasized, because its reputation for technical excellence had historically carried outsized weight in policy debates across government and often given presidents the political cover they needed to adopt controversial policies (personal communication, November 30, 2022; February 7, 2023). As one of the World Bank officials closest to these government deliberations put it:

> Given its technocratic culture, Colombian officials soaked this [financial analysis] up. In one month, because of the uptick in daily crossings, the government went from only wanting donations [in December 2018] to requesting the GCFF [in January 2019]. The Ministry of Finance pushed hard for this. It was key that we had a [development policy operation] under preparation into which key migration issues could be integrated. (personal communication, February 7, 2023)

The Bank's analysis and continued advocacy led the Duque government, led by officials at the Ministry of Finance, to dramatically shift course. From demanding external grants to deal with the refugee issue to requesting eligibility for the concessional finance provided by the GCFF. The product of this strategic interaction was cemented on January 24, 2019, when Colombia became eligible for concessional funds from the GCFF to support Venezuelan refugees, joining Jordan and Lebanon as only the third country able to benefit from the Facility. While the Duque administration had already adopted a progressive refugee strategy in its first months in office, the Bank's ability to offer exceptional finance from the GCFF was crucial to providing the resources needed to adopt this strategy in practice and convincing key government stakeholders that using IFI resources for refugees was worth it. As Finance Minister Alberto Carrasquilla put it when Colombia gained GCFF eligibility, 'Colombia is very pleased and grateful for the international support to deal with the challenges of the migration wave from Venezuela. Instruments like the GCFF will be of great help to facilitate the fiscal efforts by the government' (World Bank, 2019b).

Leveraging – and evidencing the criticality of – its new GCFF eligibility, Colombia quickly deepened its support for Venezuelan refugees. In May 2019, the World Bank approved the $750 million *Second Fiscal Sustainability, Competitiveness, and Migration Development Policy Financing Project*,[64] with $31.5 million from the GCFF, which reduced the interest rate of the loan from Colombia's usual level as an IBRD country to the concessional, zero interest, rates typically reserved for poorer, IDA members. The project built on the fiscal sustainability and competitiveness objectives of its predecessor operation, but added a new, third component focused on supporting displaced Venezuelans. As conditions for the project, the World Bank required the government to regularize the status of 280,000 Venezuelan refugees in the economy, facilitate their access to the formal labor market, and expand their access to public services such as health and education (World Bank Group, 2019, p. 19). While President Santos had met these conditions through a decree issued on July 25, 2018, two weeks before leaving office, receiving funding for the project required Duque to preserve that decision, which had fueled political backlash, and even protests, among Colombian citizens (Armario, 2018; Departamento Administrativo de la Presidencia de la República, 2018; Grattan, 2019). Upon the GCFF approving the grant for the project, Finance Minister Carrasquilla again emphasized the importance of this exceptional finance to Colombia's ability to expand support to Venezuelan refugees: 'Colombia is grateful to the GCFF members for their valuable assistance. These non-reimbursable resources will help finance the significant fiscal effort Colombia is making to host and help the Venezuelan migrants in the best way possible' (World Bank, 2019c).

Despite these auspicious beginnings, President Duque's continued willingness to prioritize aid for pro-refugee policies and programs would hinge on the Bank's continued provision of exceptional finance. As 2019 went on, Colombian officials emphasized the financial stress that their country endured by hosting a rising number of refugees, emphasizing that, despite international support, it was the government that was paying the vast majority of the costs to meet refugees' needs. While acknowledging that studies by the Bank, IMF, and think tanks showed that 'in the medium term [hosting Venezuelan refugees is] going to be useful for Colombia, even for the growth of Colombia', Felipe Muñoz, Duque's Presidential Advisor for the Colombian-Venezuelan border, stressed the significant short and medium-term financial burden Colombia was bearing Dews, 2019, p. 16). Muñoz cited estimates that the annual costs of hosting Venezuelans was $1.5 billion, or about 0.5 percent of GDP, noting that '[w]e have received in the last three years $450 million in international cooperation' to meet these costs, 'which is around $150 million per year, which is like 10 percent of the money that…we needed, and then 90 percent is provided by the government of Colombia' (p. 16). Describing the sheer pervasiveness of the challenge, Muñoz noted in another interview that the Venezuelan influx was 'no more a border issue. It's more a national issue. It's more a development challenge because we have Venezuelans everywhere' (Selee, 2019). As he added, 'we have to create a comprehensive strategy and policy…[through] a multi-functional, multi-agency process, and this is the reason that I have been…trying to coordinate all national entities to give their response'.

[64] The terms 'development policy operation', which this dissertation has used to this point, and 'development policy financing', as with the project referenced here, are used interchangeably at the World Bank. Both refer to projects that inject money into aid recipient budgets in exchange for their undertaking specific policy reforms.

Meeting these costs had required Muñoz to appeal to the Ministry of Finance in 2018 for an exception to Colombia's fiscal rule, a constitutional cap on public spending, which the Ministry granted, saying 'okay you can spend a little more because you have this big influx of migrants' (Dews, 2019, p. 16).

Muñoz's sentiments were reflected by even more senior officials across government. In a July 2019 interview in Washington, Foreign Minister Carlos Holmes Trujillo said '[w]e need more international cooperation, money: money to feed the health services, money to feed the education services that are receiving a lot of Venezuelans every day. More financial cooperation is needed' (Woodruff, 2019). It was clear Colombian officials felt they were not receiving adequate support from the international community. Pointing to the enormity of the crisis and its impact on Colombia, Trujillo asked, '[c]an you imagine the effort that a country like Colombia has to make in order to attend 1,500,000 Venezuelans as of today?' Officials even made explicit comparisons to the Syrian experience, arguing that the crisis they faced was more intense, more costly, and had received less external support than the one faced by Syria's neighbors. In a Washington Post op ed in February 2020, President Duque himself made the case himself that Colombia was providing a critical global public good that demanded much greater financial assistance from its international partners (Bahar & Dooley, 2019; Duque, 2020). It is worth quoting his perspective at length:

> The cost of providing humanitarian support to Venezuelan refugees has placed considerable strain on Colombian resources. For example, migrant education costs $160 million per year; emergency health care costs nearly $40 million per year; and water and sanitation services cost $260 million. Colombia is doing its part to care for the migrants…, [b]ut [it] cannot stand alone in resisting the effects of this crisis. The region needs greater support from the international community. According to experts at the Brookings Institution, an estimated 16 percent of Venezuelans have fled their country, and the pace of that outflow is greater than the refugee crisis in Syria. The Brookings report also notes the disproportionate international response: "In response to the Syrian crisis, for example, the international community mobilized large capital inflows, spending a cumulative $7.4 billion on refugee response efforts in the first four years. Funding for the Venezuelan crisis has not kept pace; four years into the crisis, the international community has spent just $580 million." The crisis in Syria is terrible, and the Syrian people deserve our support. But the world needs to understand that a humanitarian crisis of greater proportions is unfolding — and accelerating — right here in the Americas…more must be done. A crisis of this magnitude is simply too much for Colombia and the region to shoulder. We hope the world will rise to the occasion and step up its response to the Venezuelan crisis before it is too late. The fate of the Western Hemisphere depends on it. (Duque, 2020)

By early 2020, Colombia was bearing a significant fiscal burden to meet the needs of its growing refugee population. Its ability to tap exceptional finance from the GCFF had played an important role in its adoption of supportive refugee policies. Statements from senior officials made clear their general inclination to support beleaguered Venezuelans and illustrated the

considerable financial sacrifices the country was making to put its progressive refugee policies into practice. However, the government – including President Duque himself – was also increasingly clear that the continuation and deepening of these progressive policies would require continued international financial assistance. Also evident in the statements by Duque and other officials is a desire for recognition by Colombia's external partners of the country's extraordinary contribution to the global public good of supporting Venezuelan refugees.

As the crisis evolved, it became evident that the World Bank was uniquely placed to provide the exceptional finance and recognition that Colombian officials demanded. The World Bank continued to emphasize the medium and long-term economic and fiscal benefits of promoting refugee integration through concessional finance, which emboldened other members of the international community to make a stronger case for refugee inclusion. A senior UNHCR official in Colombia described this dynamic in an interview, noting that 'UNHCR always says refugees are good for you; but when the World Bank comes with that message, people believe it' (personal communication, December 21, 2022). As she continued, 'we tried to show refugees had limited negative, or perhaps even positive, economic impact, but the World Bank sounding that message and showing that through its analysis added a lot of credibility'. 'We benefited', the UNHCR official emphasized, 'from…being able to say [based on the Bank's analysis] that every $1 in investment in refugees or hosts results in $2 in social and economic return.'

Coupled with its analysis, the World Bank's ability to offer exceptional financial incentives from the GCFF played a key role in convincing Colombian officials to continue to adopt pro-refugee policies and development programs. The fact that the Facility was designed specifically to reduce the fiscal costs of refugee support continued to win influential advocates in the finance ministry and across Colombia's technocratic bureaucracy. The Bank's 'analytical chops and respect' made the 'government more oriented toward…loans', the UNHCR official stressed, adding that '[t]hey understood the advantages of concessionality, and knew it was just a cash flow [issue]' (personal communication, December 21, 2022). 'Duque's administration was very keen on what the GCFF had done', the official noted, so much so that 'they even wanted to create the world's first refugee-linked public bond, but this fell short because they did not approve it before Duque left'. A World Bank staff member who helped lead the dialogue with the Colombian government in the crucial period from 2019 and into 2020 echoed these sentiments, stating that 'I would…not underestimate the role of the financial support: For Colombia…, the financial incentive [from the GCFF] was key' (personal communication, February 7, 2023).

Beyond its technical and financial support, the Bank also helped the government develop a communications strategy designed to blunt any political fallout from its progressive approach to Venezuelan refugees. The strategy identified refugee narratives that scared the Colombian public, emphasized the humanity of the displaced, and helped foster a sense of solidarity and equality with, and empathy toward, Venezuelans. The strategy also created channels and engaged influencers and journalists to amplify these messages. As the Bank staff member who lead the design and deployment of the communications strategy put it, 'Our goal was to create a critical mass in favor of integration…[and] to help the government create a clear, accurate,

and compelling presentation of their approach to the issue' (personal communication, February 7, 2023). The Bank became part of something of a crisis room, helping to counter misinformation with facts, responding to concerns, and, over time, shift the majority opinion of the Colombian people, with the pro-integration narrative winning out, especially in Bogotá.

The combination of the Bank's analytical, exceptional financial, and strategic-communications support ultimately achieved a key breakthrough in terms of Colombia's policy response to Venezuelan refugees. Building on its November 2018 strategy and its initial use of GCFF support for a pro-refugee loan in May 2019, in March 2021, Colombia took a major step by approving temporary protection status (TPS) for Venezuelan refugees. Importantly, and as described further below, this reform was a prior action – that is, a policy condition – of a World Bank loan that would be approved later in the year with GCFF support. It is difficult to overstate the significance of TPS for displaced Venezuelans. Most consequentially, the measure guaranteed their legal status in Colombia for ten years. This extended time horizon provided Venezuelan families space to plan and rebuild their lives, such as by investing in businesses, housing, and higher education. The measure also affirmed Venezuelans' rights to public services and shelter, to work formally, and to settle in different parts of the country. Approval of TPS for Venezuelans made Colombia one of only three countries globally to have such an inclusive policy framework for those displaced by crises in their countries of origin, following U.S. TPS for Central American and Haitian migrants and Turkish TPS for Syrian refugees (World Bank Group, 2021a, p. 8).

International actors hailed Colombia's granting of TPS to Venezuelan refugees. UNHCR head Filippo Grandi, who joined Colombian President Iván Duque for the reform's announcement, commented that 'this bold humanitarian gesture serves as an example for the region and the rest of the world [and]…is a life-changing gesture for the 1.7 million displaced Venezuelans who will now benefit from added protection, security and stability while they are away from home,' continuing that 'we applaud Colombia for its extraordinary generosity and its commitment to ensure protection for displaced Venezuelans' (UNHCR & IOM, 2021). World Bank Vice President for Latin America and the Caribbean Carlos Felipe Jaramillo observed that 'temporary protection status offers a future of opportunities for Colombia and the Venezuelan population it hosts', and that 'Colombia's open-door policy is a paradigm shift in the global approach to mass migration flows', one that 'gives renewed hope to migrants…while providing valuable lessons for the rest of Latin America and the world' (Jaramillo, 2021). In a nod to the international community's efforts to convince Colombia to adopt this policy, one analyst concluded that the 'announcement should be seen as a victory for the joint efforts of [UNHCR and the International Organization for Migration] and for the myriad international partners who have been pushing for more formal status for Venezuelans' (Yayboke et al., 2021). These statements illustrate the significance of Colombia's TPS reform, and hint at the role international actors played in bringing it about.

The World Bank-financed project that induced the granting of TPS for Venezuelan refugees was the *Social and Economic Integration of Migrants Development Policy Financing*, approved on November 16, 2021. The operation was supported by a $26.4 million grant from the Global

Concessional Financing Facility, which made the project's overall financing package of $526.4 million available to Colombia at concessional rates. The project's objectives were to establish a 'legal and institutional basis for the protection and long-term social and economic integration of migrants' and support 'improved access to and quality of services for migrants' (World Bank Group, 2021a, p. 8). The central policy condition of the project was Colombia's landmark adoption of long-term TPS for Venezuelans described above, a prior action the government had to take in order to get project funding. The project also created a Temporary Protection Permit to regularize the presence of some 1.2 million Venezuelans and allow them to access labor markets, social security, health, education, and other public services; sought to register 700,000 refugees in the General System of Social Security in Health; ensured refugee access to vaccines for COVID-19; made them eligible for National Rental Housing Program subsidies; and established state-level 'Migration Roundtables' to enhance policy and service delivery in host areas by expanding refugee participation in decision making processes.

These reforms to support the socioeconomic integration of refugees was nearly without international precedent in terms of breadth, depth, and progressivity. Indeed, the project was the first ever World Bank-financed budget support project to focus entirely on the socioeconomic integration of refugees. Along with the example of Jordan's reforms on labor market integration of Syrian refugees discussed in the last chapter, the project's approval is perhaps the strongest testimony of the success of the Bank's combined use of GCFF exceptional finance, analytics, and strategic advocacy to induce contributions to the global public good of refugee support. Following the project's approval, Alejandra Botero Barco, director of the Colombian planning department, made clear the criticality of both GCFF financing and the Bank's broader engagement in allowing Colombia to expand support for Venezuelan refugees:

> This operation is very important for Colombia, as it will allow the national government to guarantee the resources needed to provide continuity to its strategies in terms of recovery and equitable and inclusive economic growth Moreover, it reinforces the support of the World Bank for the government's efforts to move forward with the protection and social inclusion of the migrant population in a way that allows them to take part in productive activities and the State's social welfare offerings which, in turn, will advance the country's prosperity. (World Bank, 2021b)

Colombia also leveraged GCFF support to adopt a number of other projects that directly supported Venezuelan refugees. These efforts provided assistance in sectors key to their socioeconomic well-being and integration. They included the *Improving Quality of Health Care Services and Efficiency in Colombia Program*. Approved in March 2020, with $37.6 million from the GCFF, the project aimed to improve the country's health system and committed to enroll 425,000 Venezuelans in the General System of Social Security in Health, which would expand their access to health services (World Bank Group, 2020b, pp. 27-28). This commitment also laid the basis for the government's policy commitment to enroll 700,000 refugees in the general health system under the social and economic integration project described just above. Enabling refugees to access national health services represented a costly action that further signaled Colombia's commitment to refugee support.

Further, Colombia expanded refugees' access to housing, with strong IFI exceptional financial incentives. Approved in May 2021, the $100 million *Inclusive and Resilient Housing Project* sought to improve the urban living conditions of, and expand rental subsidies provided to, nearly 44,000 Venezuelan households and over 150,000 Venezuelan refugees (World Bank Group, 2021b, pp. 15-16). Anticipating the potentially long-term nature of Venezuelans' residence in Colombia, the project provides resources for investment in housing upgrades and making them more resilient to climate and other disaster risks, as well as public facilities for host and refugee communities and infrastructure for water storage and vegetation. Notably, over one-third of project financing came from exceptional sources, including $21.7 million from the GCFF and $15 million from the World Bank's IBRD Fund for Innovative Global Public Goods Solutions, another highly exceptional form of World Bank resources which seeks to incentivize IBRD members to contribute to global public goods by offering them grant financing for projects with that purpose. This project was only one of two that the global solutions fund supported in 2021, illustrating its contribution to the global public good of refugee support.

iii. Assessing outcomes relative to theoretical expectations

The strategic interaction and policy reforms and projects surveyed in this section demonstrate the critical role that exceptional finance from the GCFF played in the World Bank's ability to compel and reinforce Colombia's highly supportive approach to Venezuelan refugees. Not only did the government take immediate steps to legalize the presence of Venezuelans seeking security within its borders, it also adopted measures to regularize their status and support their socioeconomic integration. The Bank's analytics on the medium and long-term economic benefits of refugee integration and the fiscal benefits of leveraging concessional loans to pursue that integration won support from influential technocrats across the Colombian bureaucracy, particularly in the Ministry of Finance. The Bank's ability to draw on continued exceptional support from the GCFF to subsidize pro-refugee programs provided critical incentives that helped address the concerns senior Colombian officials expressed about the financial burden the government was bearing, and the dearth of external support it was receiving, to absorb the nearly two million Venezuelans who had entered the country. Exceptional finance played a key, causal role in inducing Colombia's contributions to the global public good of refugee support, but its effect is sometimes outweighed by other factors, as the shadow case study of Peru in the next section will show.

d. Alternative explanations

In Colombia, the offer of IFI exceptional finance provided incentives that played a crucial role in offsetting the opportunity costs of strongly supporting refugees. Reduced opportunity costs helped convince the government that taking this costly development action would leave it better off than not doing so, just as my argument expects. However, it is important to explore other, non-financial factors that may also explain Colombia's contribution to the global public good of refugee support. My research suggests four such factors are particularly relevant: Venezuela's prior role as a haven for displaced Colombians and the countries' close historical

links; the political security of the Colombian president; Colombia's strong historical engagement on international issues; and institutional dynamics within the World Bank itself. I review these potential alternative explanations below, concluding that each contributed to Colombia's supportive refugee approach but that, without the offer of exceptional finance through the GCFF, these factors – whether individually or in concert – would not have been sufficient to bring that costly outcome about.

i. Prior support and historical ties

While it was now the origin country, Venezuela had historically served as a destination for Colombians fleeing conflict in their own country. The flow of displaced Colombians into Venezuela was decades-old. As one study notes, '[t]he Colombian armed conflict… pushed hundreds of thousands of people toward Colombia's northeastern border, leading many to cross and seek refuge there in the 1990s and 2000s' (Ordóñez and Ramírez Arcos, 2019, p. 158). 'By 2011,' it adds, 'Colombians made up the largest population of foreigners living in Venezuela, almost 700,000 in total' (Ochoa, 2020; Ordóñez and Ramírez Arcos, p. 158). Of these, by 2014, nearly 200,000 were refugees (Carreño Malaver, 2014).

These links generated empathy in border regions when the tables turned and Venezuelans found themselves seeking refuge in Venezuela. One woman recalled how she had benefited from access to work and basic goods in Venezuela upon settling in the Colombian border city of Cúcuta after being displaced from her home in western Colombia in 2007. As she said '[w]e Colombians depended on the border' (Martinez, 2018). A decade later, when Venezuelans began arriving in Cúcuta, the woman saw a chance to return the favor by hosting 18 Venezuelans in her home. The solidarity displaced Colombians felt toward their Venezuelan counterparts is evident when she explains what inspired her generosity:

> I lost everything. I arrived here with empty hands. After having been through that, I decided to open my door to Venezuelans. [T]hey are Venezuelans and we are Colombians, but we both had to experience the same: leaving our families; fleeing to look for opportunities; starving; and starting from zero'. (Martinez, 2018)

President Duque himself spoke passionately about the historic generosity of Venezuelans toward Colombians fleeing conflict in their own country, including members of his own family. Speaking of his great-uncle, Duque observed that 'I remember how he drove me around Caracas and explained where the Colombian neighborhoods were' and how 'I got to understand that in times of crisis in the 20th century, Venezuela became home for many Colombians' (Vick, 2021). Further evincing his personal exposure to the plight of Colombian refugees in Venezuela and the criticality of Venezuela's welcoming approach, Duque noted that 'in recent history, when Colombia faced difficult circumstances, many Colombians moved to Venezuela and found an opportunity…My grandmother's brother was one of them' (Runde, 2021). On the decision to grant ten-year TPS to 1.8 million Venezuelans, Duque said, 'We have done this because we want to set a framework of a migration policy based on fraternity and based also on humanitarian relief and protection.' President Duque's personal appreciation for Venezuela's

historic kindness toward displaced Colombians, including his own family member, certainly shaped the approach Colombia took to supporting Venezuelan refugees during his presidency.

Connections and empathy forged from Venezuela's prior support for displaced Colombians were bolstered by broader cultural, social, and economic links between the Colombian and Venezuelan people. Part of this closeness was a product of geography. The countries' 1,400-mile border 'was once considered the most dynamic…in Latin America, as thousands of people would cross back and forth daily' (Ordóñez and Ramírez Arcos, 2019, p. 158). This cross-border movement created strong economic ties that were decades-old by the time Venezuelan refugees began to arrive in Colombia in the mid-2010s. Indeed, '[b]eginning in the 1950s, large waves of Colombians migrated to Venezuela, an oil rich neighbor, where many found work and economic opportunities in Venezuela's social welfare state that were not available at home' (Ordóñez and Ramírez Arcos, 2019, p. 158). These economic links were strengthened by cultural ties, especially in Colombia's northeastern border region, with one World Bank staff member observing that, 'everyone in the border from Riohacha to Cúcuta have shared Caribbean oriented cultures' (personal communication, February 7, 2023).

Despite the gratitude for prior generosity and these broader socioeconomic linkages, the empathy that Colombians initially expressed toward Venezuelans began to ware thin as the latter's numbers soared. This shift is evident in public opinion polling and more overt forms of xenophobia. Surveys suggest that a majority of Colombians favored allowing Venezuelans to resettle in their country but that this had dipped to 40 percent in 2021 (International Crisis Group, 2022; Pérez B., 2020). Xenophobic posts on social media began to increase, and Venezuelans were blamed for looting and rioting during nationwide protests in 2019 and 2021 (International Crisis Group, 2022; Stern, 2019). In Pamplona, a transit city for Venezuelans moving toward the Colombian capital of Bogotá, residents held a demonstration in 2020 to protest the construction of a shelter for migrants, with one complaining that '[t]hey come here at night like rats' (Otis, 2020). Reflecting on this change in the public mood, a recent World Bank note comments that '[a]lthough, in general, Colombian society has received Venezuelans with empathy and solidarity, rejection of migrants and of the governments' migration policies has been steadily growing' (Rossiasco & Narváez, 2023, p. 12).

The discussion above shows that, while historical ties and solidarity left Colombia inclined to support Venezuelan refugees, these factors do not fully explain its generous approach. Close links between the Colombian and Venezuelan peoples did not make integration inevitable. Over time, rising public animosity toward refugees made it increasingly difficult for Duque to adopt progressive policies. The growing political costs of refugee support would have been even more difficult to bear had Duque lacked access to exceptional financial assistance to offset the fiscal impact of pro-refugee programs. It also would have proven difficult in a less stable political environment where the standing of the president was less secure, a dynamic I turn to next.

ii. Political security

Duque's security in office allowed him to advance a risky, principled agenda of using foreign aid to support non-nationals despite the rising political costs of doing so. While Duque was not a popular president, he did have multiple assets that allowed him to push against strands of public opinion that staunchly opposed an inclusive approach to Venezuelan refugees (Alsema, 2021). First and foremost was the historical strength of the Colombian presidency. As noted earlier, Colombian presidents had enjoyed atypical continuity during their tenure (Moreno, 2005). An outlier among Latin American nations, Colombia had only experienced a single military dictatorship during its history, in 1953, and this unelected leader, General Gustavo Rojas Pinilla, was installed via a compromise between the Liberal and Conservative Parties as a means of stopping a period of intense partisan bloodshed (Bushnell, 1993). When the parties worked out their issues, and agreed on a power-sharing arrangement that would run from 1958-1974, Rojas Pinilla was dismissed and democracy returned, with each president in the National Front, and every one of them since, serving out their full elected terms. Duque knew that, even if his progressive approach to refugee support proved highly unpopular among the Colombian public, the country's political history meant he faced little threat of extra-legal removal from office.

Another factor that strengthened Duque's ability to advance an unpopular refugee agenda was the fact that he did not have to face voters again. Colombian presidents have a one-term limit and may not run again after initially leaving office,[65] enabling them to pursue policies that suit their interests without fear that voters will hold them electorally accountable at some future date. Duque could thus hold fast to his instinctive support for refugees without significant concern about the implications of refugee policy for his future electoral prospects. Indeed, at the end of a term that had seen major national protests against his tax policies and other aspects of his economic agenda, one World Bank observer commented that 'Duque saw that progressive refugee policy would be his only achievement and legacy' (personal communication, February 7, 2023). The power of the Colombian presidency provided a bulwark from which Duque could resist the rising tide of public opposition to Venezuelan refugees, serving as a domestic political factor that complemented, but did not obviate, the role of exceptional finance in paving the path for Colombia's strong refugee support.

iii. International orientation

Colombia's international orientation represents a third factor that might better explain the country's strong contribution to the global public good of refugee support than exceptional finance. Historically, Colombia's large population and economic heft made it a natural leader in the region and afforded it a platform to engage on global issues, from the U.S. war on drugs and terror, to its participation in G20 summits, to its leading role in the establishment of important regional groupings such as including the Community of Latin American and Caribbean States (CELAC) and the Pacific Alliance (Bagley, 1988; Beittel, 2021; G20 Research Group, 2022; Pastrana & Piñeros, 2018). Colombia has also asserted itself on the global stage. At the Rio+20

[65] This rule was altered in 2005, which allowed Presidents Alvaro Uribe and Juan Manuel Santos to both serve two terms. However, the one-term limit was reinstated in 2015, three years prior to Duque taking office.

Summit in 2012, President Santos proposed what would in 2015 become the Sustainable Development Goals (SDGs), and that same year Colombia become one of the first countries to publicly challenge the decades-old U.S. supply-side strategy to managing drug trafficking by calling for a new approach (Forero, 2012; The Rockefeller Foundation, 2023). Colombia also won global plaudits for its successful, years-long effort to negotiate a peace agreement with the FARC rebel group, an achievement for which Santos won the Nobel Peace Prize in 2016 (EURACTIV, 2016).

Similar to Jordan, Colombia has become adept at translating contributions on international issues into economic and political benefits. Early support for the U.S. drug war yielded Bogotá $16 million in 1979, over one-third of global U.S. counternarcotics spending (Bagley, 1988, pp. 79-80). This collaboration expanded into counterinsurgency after 9/11, when U.S. President George W. Bush and his Colombian counterpart Alvaro Uribe framed the Colombia government's stepped-up attacks on the FARC rebel group as part of the broader U.S. war on terror. While deeply unpopular among many Colombians, instrumentalizing counter-narcotics and counter-insurgency efforts yielded significant financial returns. Since 2000, the United States has provided some $12 billion in aid to Colombia through Plan Colombia and related efforts (Beittel, 2021, p. 2).

Colombia also parlayed collaboration on issues of shared interest into political backing from the United States and other Western Powers. A clear example can be seen in its bid to join the Organization for Economic Cooperation and Development (OECD), a group of industrialized economies. Colombia viewed OECD membership as a sign of prestige that would help reframe its global reputation from a home to drugs, war, coffee, and soccer to a well-governed, quickly emerging economy where foreign businesses would be wise to invest (Runde, 2018). Given that Colombia remained a middle-income country, much poorer than the high-income countries of which the OECD was primarily composed, and continued to have shortcomings across several economic, financial, and other governance areas on which OECD membership hinged, its accession to the group was strongly opposed by business interests, including in the United States itself (Long, 2018). However, diplomatic support from Washington ultimately resulted in Colombia's successful accession to the esteemed group in 2020.

Following a meeting with Santos in 2013, U.S. President Barack Obama explained why the United States had backed Colombia's initial bid to join the OECD, in comments that reveal how Colombia had linked its global engagement to diplomatic support and concrete political and economic benefits (Obama, 2013):

> And finally, I think what we've increasingly seen is Colombia's influence on the world stage. We supported Colombia's membership in the OECD because it's reflective of Colombia's rise. It continues to have a strong influence regionally. I emphasized to President Santos that the work and the efforts that he's made on issues like human right and labor rights inside of Colombia are not only good for the Colombia people – and we want to encourage them – but they also show a path for countries that have had, in some cases, a difficult history moving forward into a 21st century that promises greater

> opportunity and prosperity and peace. And the influence that President Santos personally, as well as Colombia as a nation, has is only growing. And we think that's a positive because we consider Colombia a great friend and a great success.

Just as it had in Jordan, Colombia's emergence on the external stage instilled in its policymakers a sense of responsibility to engage on cross-border issues and, crucially, an awareness of the longer-term, indirect benefits that the prestige of being viewed as a constructive global partner can provide. This sentiment was echoed by a World Bank staff member who engaged with Colombian authorities as a key coordinator of the GCFF. The staffer emphasized that Colombia's international orientation gave its officials 'foresight about the benefits they would gain by being a "darling of development"' and a belief that 'when you play ball, you get indirect benefits' (personal communication, November 30, 2022). This belief – affirmed by decades of evidence – gave Colombia confidence it could parlay its contribution to the global public good of refugee support into future benefits on other substantive priorities. These dynamics left Colombian leaders inclined to exert leadership and political capital to drive supportive policy toward Venezuelan refugees.

However, rather than viewing Colombia's international orientation as an alternative to exceptional finance that itself explains the country's refugee support, it is more appropriate to view these two factors as working in tandem, with each playing its own, necessary role. The discussion earlier in this chapter shows that there were clear limits on the amount of support the government was willing to provide, in view both of the fiscal and economic consequences this support produced. Statements by Felipe Muñoz, Duque's migration czar, and Carlos Holmes Trujillo, his foreign minister, noted that Colombia was bearing an extraordinary financial burden in hosting refugees, and that unless more international cooperation was forthcoming, its willingness to continue this support might dry up. Further, while they had initially welcomed their neighbors, by 2020, the Colombian public had begun to express growing opposition to the government's inclusive policies. Exceptional finance from the GCFF helped address both challenges by providing cheap loans that offset the fiscal costs of hosting refugees while allowing Colombian authorities to show the public that its sacrifices were being recognized. At the same time, Colombia's diplomatic savvy gave the government confidence it could channel contributions to a key international priority into prestige that would boost its global standing and ultimately help it secure material benefits that it could direct to its primary constituency, the Colombian people.

iv. IFI institutional dynamics

A fourth additional factor to consider in assessing what drove Colombia's supportive refugee approach concerns institutional dynamics within the World Bank itself, namely the role of the country director. This is not so much an alternative explanation but, similar to the factors described above, a necessary accompaniment to the role of exceptional finance. As in all countries, the Bank's engagement in Colombia is headed by a country director who leads on strategy, program selection, and policy dialogue with top government officials. Country directors wield considerable influence over not only which policies the Bank encourages

recipients to adopt, but the tools the Bank uses to induce them to do so. Typically, these tools center on the financial support the Bank provides through its programs, as well as the analytical products and technical assistance it offers to government entities. However, directors also have the ability to seek more innovative tools, such as exceptional financial incentives like those provided by the GCFF, to promote policy reforms that the Bank considers a top priority.

Whether country offices make use of exceptional finance thus comes down very much to the personal inclination, preferences, and initiative of the country director. Accessing exceptional finance requires extra preparatory steps that can delay project preparation.[66] For example, leveraging the GCFF or the IDA Refugee Window for Host Communities and Refugees requires countries to first secure eligibility, which requires the development of numerous papers and legal and financing agreements, a months-long process that the Bank and its country office and project teams have to lead. The GCFF and IDA window offer cheaper and additional finance, thus reducing the opportunity costs of pursuing the programs they finance, but the transaction costs of using them detracts time, attention, and political capital from other programs and policies the Bank may be advocating vis-à-vis the government while also clashing with the strong institutional incentives country directors and project teams have to quickly design and deliver operations. Some country directors will be willing to incur those costs and press project teams to also do so, but others will not, and the view of directors is key in determining whether the Bank offers exceptional finance to recipient governments and how hard it pushes them to adopt the reforms these financial incentives promote. As one World Bank GCFF staff member put it, 'when country directors lean forward and are receptive to new ideas despite work that will need to be put in to advance them, it's easier to advance' (personal communication, November 30, 2022).

In Colombia, the country director embraced the prospect of securing GCFF support, despite the extra time and work that eligibility required. According to two staff who worked closely with him at the time, the director saw the GCFF as a key lever in the Bank's policy dialogue with the authorities on refugee issues (personal communication, November 30, 2022; February 7, 2022). He knew the Facility would not only help provide the financial support officials had been demanding to reduce the fiscal and opportunity costs of hosting refugees. He also knew it would provide indirect benefits, like prestige and recognition, that Colombian valued. The director's ability to clearly articulate these indirect benefits played an important role in convincing Colombia to sign onto the GCFF and increase its contributions to the global public good of refugee support. As one Bank GCFF staffer who worked on Colombia observed, '[t]he [GCFF remains the sweetest deal countries can have', but this was not only due to the financial incentives it offered (personal communication, November 30, 2022). What also gives the facility its 'punch', the staffer argued, is the prospect it offers countries of receiving credit from the Bank and other key international actors that they can leverage to gain support on other priority issues. In Colombia, the staff continued, the Bank's country director made this case well, and

[66] Knowledge of GCFF dynamics cited in this section stem from my work on the GCFF coordination unit, working with country teams in several countries, and serving as a member of the World Bank country team in South Sudan.

the country's leadership role in the region and engagement on global issues left it cognizant of the value such indirect gains could provide.

This section has reviewed a series of factors that may serve as alternatives to exception finance in explaining the Colombian government's strong support for Venezuelan refugees. As I have argued, none of these factors on its own serve as a satisfactory alternative explanation. While historical ties between the country's people and Duque's personal gratitude to Venezuelans provided a supportive basis, rising public discontent meant these linkages were not enough to induce a progressive response. The security of the Colombian presidency and Duque's inability to run for reelection also provided space to pursue politically risky policies. Colombia's history of translating contributions on global issues into economic and political rewards meant officials knew supporting refugees would provide indirect benefits on which they could later capitalize, a strategy the World Bank country director skillfully emphasized in dialogue with the Colombian authorities. However, the lesson of this review is not that exceptional finance was unnecessary in inducing costly development action, but that, in some cases, it must be accompanied by other factors in order for IFIs to compel their desired outcome. As the shadow case study on Peru in the following section will show, the absence of these accompanying factors can leave exceptional finance unable to convince officials that adopting costly conditions would be more beneficial than saying no.

e. Peru: When the costs of costly reform outweigh the benefits

Peru is similar to its northern neighbor on a range of variables that might have been expected to impact its refugee approach. Its economy has been one of Latin America's strongest performers over the last two decades, during which, like in Colombia, skilled technocrats in the finance ministry and central bank have gained influence and helped preserve economic stability (Dargent, 2015; Oxford Business Group, 2017; Santos, 2015). Today, Peru is a middle-income IBRD member with a per capita GNI of $6,460 that is nearly identical to Colombia's $6,190 (World Bank, 2023e). The size of the refugee shock in the two countries was also comparable: Peru received some 1.3 million Venezuelan refugees, second to Colombia in raw numbers but similar as a share of its population (Chaves-González, Amaral, & Mora, 2021; UNHCR, 2022d). Crucially, Peru also received multiple offers of GCFF support from World Bank staff in a bid to convince Peru to increase its socioeconomic integration of Venezuelans.

Given these similarities, my theory would expect the same outcome in Peru as in Colombia: strong, sustained support for Venezuelan refugees. That is not what happened: Despite having received the 'treatment' of exceptional finance and serving as a close country match on relevant covariates, Peru has adopted a more restrictive approach to refugees than Colombia. This presents an opportunity to use Peru's experience to probe the scope conditions of my argument. As I will show, the factors that helped exceptional finance induce refugee support in Colombia – prior support and historical ties; the political security of the president; international orientation; and World Bank encouragement – were either absent or less robust in Peru. I explore these dynamics in the shadow case study below.

i. Initial response, strategic interaction, and longer-term policy response

Initially, Peru joined Colombia in adopting a relatively welcoming approach to displaced Venezuelans. Indeed, at the outset of the crisis, some deemed its policies as the most accommodative in the region. In January 2017, then-President Pedro Pablo Kuczynski issued a decree to establish a 'Temporary Permit of Permanence' (PTP) that allowed Venezuelans to stay in Peru for up to a year while, if desired, they sought to obtain longer term residency via avenues under existing Peruvian migratory law. The following year, Peru built on the PTP by decriminalizing irregular migration from Venezuela through 2025. Crucially, the PTP granted legal status even if refugees arrived with an expired passport – a common occurrence given the administrative breakdown in Venezuela – and enabled key aspects of refugees' socioeconomic integration, such as working and enrolling children in school (Cantú, 2017).

As two officials who worked on refugee issues in both countries recalled, the Bank made extensive efforts to promote use of the GCFF in Peru (personal communication, November 30, 2022; February 7, 2023). Bank officials in Peru secured allies in the Ministry of Finance for use of the GCFF. While Finance was not responsible for refugee issues, the Bank hoped its recognition as the most technocratic ministry in the government, as well as its leading role in decisions on the use of World Bank funding, would generate an authorizing environment in which the GCFF could be leveraged. The Bank also secured support for the GCFF from the Ministry of Foreign Affairs. While less technical than finance, the foreign ministry was one of the government's leads on refugee issues, and Bank officials saw its support as vital to the adoption of pro-refugee policy going forward. These allies seemed to position the Bank well for Peru's use of the GCFF to finance programs geared toward the costly action of refugee support.

Despite these promising beginnings, the Peru's actual history with the GCFF has been one of multiple false starts and a policy environment less hospitable to Venezuelan refugees than in Colombia. The Peruvian government three times requested a GCFF-supported project, but, each time, the government changed before the program took shape, requiring the Bank to go back to zero. A Bank staff who worked on the issue recalled having 'had to send the basic GCFF briefing package to three new governmental teams' (personal communication, February 7, 2023). This experience contrasted sharply with Colombia, where sustained support from the highest levels of government provided a conducive environment for the adoption of GCFF support. In Peru, the lack of political and policy stability proved a major barrier to utilizing these exceptional resources for pro-refugee initiatives, as I assess further below.

The Peruvian government's accommodative approach in the early stages of the refugee inflow began to reverse by mid-2018. The first policies that changed were the documents Venezuelans were required to show in order to enter and obtain regular, legal status in the country. In August 2018, the government started requiring those entering Peru to present a passport, something impossible for many Venezuelan refugees to obtain due to their country's administrative collapse. In August 2018, it tightened requirements and shortened the deadline for issuing PTPs – the temporary residency permits discussed above – and in October suspended PTPs altogether. In June 2019, Peru's government introduced as an alternative to

the PTP a humanitarian visa that was difficult to secure since it required documentation, such as a criminal record or passport, that was practically unobtainable in Venezuela (Aron Said & Castillo Jara, 2020; Camino & López Montreuil, 2020, p. 54; Millman, 2019). These new requirements were introduced under the premise of preventing criminals from entering Peru, but their practical effect – and, to many, their intent – was to deter Venezuelan refugees (Camino & López Montreuil, 2020; CGTN, 2018).

The Peruvian government enforced these new entry requirements with diligence, making it much more difficult for Venezuelan refugees to enter and live legally in the country. Lacking alternative pathways, many Venezuelans began to claim asylum, an appeal that would, if successful, afford them formal refugee status and the rights of stay that came with it (Ble, Leghtas, & Graham, 2020; Camino & López Montreuil, 2020). The challenge with this approach was that there were different views on whether displaced Venezuelans should be classified as refugees. Under the 1951 Refugee Convention and its 1967 Protocol, a refugee is 'someone who has been forced to flee his or her country because of persecution, war or violence…[and] has a well-founded fear of persecution for reasons of race, religion, nationality, political opinion or membership in a social group' (USA for UNHCR, 2023). Many believed that, because Venezuelans were not fleeing war or, in most cases, personally targeted for violence, they did not technically meet the definition of what constitutes a refugee. This ambiguity meant Venezuelans were not granted refugee status automatically, or 'prima facie', but had to submit asylum claims and wait at the border while the government conducted a status determination process that could take up to 70 days (Camino & López Montreuil, 2020; Ble, Leghtas, & Graham, 2020). The new document requirements and status determination process slashed the number of Peruvians who could legally enter and live in Peru, with only 13 percent of those claiming asylum from June-December 2019 allowed to enter the country (Camino & López Montreuil, 2020, p. 54).

ii. Explaining divergent outcomes in Peru and Colombia

Given their contextual similarities and that both countries received extensive offers of exceptional financial support from the GCFF, what explains the divergent policy approaches Peru and Colombia took vis-à-vis Venezuelan refugees? I argue that the same factors that accompanied exceptional finance to produce a supportive outcome in Colombia served to prevent that outcome in Peru. Specifically, the lack of historical ties between the country's people, profound insecurity of the Peruvian presidency, Peru's more insular orientation, and World Bank leadership's inability to make the case for GCFF support and unwillingness to bear the added costs of using the facility help to explain why Peru has contributed less to the global public good of refugee support than its Andean neighbor. The role these factors played in both countries illustrates scope conditions of my argument. While exceptional finance can play a vital, necessary role in inducing costly development action, it does not always prove sufficient.

1. Prior support and historical ties

It seemed that prior support for displaced Peruvians and the personal experience of the president would drive similar generosity toward refugees in Peru as it had in Colombia. In the 1970s, thousands of Peruvians fled to Venezuela due to terrorism, political instability, and a harsh military dictatorship, with some 150,000 remaining when the Venezuelan exodus began three decades later in 2017 (Cantú, 2017). Like Duque, the policy approach of then-Peruvian President Kuczynski also appeared to be shaped by his own experience as a refugee during the dictatorship, with one academic surmising that Peru's early regularization of the status of Venezuelans derived from the fact that Kuczynski 'himself was someone who had to flee from the military government' (Cantú, 2017). The president's main advisor on migration commented that '[o]ur president had a series of very positive and favorable political gestures towards human rights…[s]o we were commissioned to study how to help Venezuelan citizens in [Peru]', adding that the government took this action '[b]ecause Peruvians are a people with memories' (Cantú, 2017). Kuczynski's motivation to aid Venezuelan refugees also stemmed from his desire to position Peru as a regional leader of opposition to the autocratic regime of Venezuelan President Nicolás Maduro, with Kuczynski referring to Venezuelans as 'brothers' who 'are welcome in this democratic country' (Aron Said & Jara, 2020, p. 63). As in Colombia, Venezuela's earlier welcome of Peruvian refugees and Kuczynski's personal exposure to displacement led Peru to initially adopt a supportive posture toward Venezuelans.

However, closer examination reveals that the societal ties that bound Colombia and Venezuela together were not as robust as in Peru. First, Peru and Venezuela do not share a border, and the pace and volume of exchange between the countries' peoples is much less than in the case of Colombia. As noted above, Colombians represented the largest foreign population in Venezuela, and for decades, thousands of daily crossings of the countries' vast border ensured strong social and economic links; there was nothing like this between Peruvians and Venezuelans (Ordóñez & Ramírez Arcos, 2019, p. 158). Cultural differences also hindered cohesion between Peruvians and their Venezuelan guests and fostered a climate of suspicion and resistance to Venezuelans' long-term integration. A World Bank staff member put these challenges in stark terms:

> Colombia has stronger cultural ties to Venezuela. [Unlike the shared Caribbean cultures of Venezuelans and Colombians] Peru is more of an Andean oriented culture – more agriculture, more quiet, more inward looking. There is more mistrust to the outside, because of the country's ethnic fragmentation [and] how aggressive and violent the colonization process was. The quiet Peruvians reacted badly to the 'loudness' and ostentatiousness of Venezuelans, especially Venezuelan women, who were portrayed as coming to take Peruvians' husbands, who are seen as key to the success of the household. (personal communication, February 7, 2023)

2. Political security

In addition to the comparative lack of historical ties between Peruvians and Venezuelans, the profound volatility of Peruvian presidential politics also hindered its taking a more supportive refugee approach. Emerging links to a corruption scandal left Kuczynski in political turmoil as

2017 came to a close, just as the number of Venezuelan refugees in Peru began to soar. As his status became dire, political opponents seized on the president's increasingly unpopular support for refugees to ratchet up pressure against him, including by charging without evidence that a wave of Venezuelan criminals had secured protected status under Kuczynski's policy and that informal Venezuelan workers were taking jobs from low-skilled Peruvians (Freier & Pérez, 2021; Levaggi & Freier, 2022; Instituto de Opinión Pública, 2020). Facing impeachment, Kuczynski resigned in March 2018.

Kuczynski's removal had important consequences for Peru's policy toward Venezuelan refugees. His successor, Martin Vizcarra, did not have personal experience as a refugee, nor was he as outspoken as Kuczynski in presenting Peru as a democratic foil to the Venezuelan autocracy. His approach to the refugee issue was driven less by personal values and inclination than by public opinion, which was eroding due to the perceived negative impact of Venezuelans on labor markets and their criminalization by opportunistic politicians. According to one assessment, 'instead of linking migration to democratic responsibility and empathy, [Vizcarra] framed it as a problem for Peru and for the safety of Peruvians' (Aron Said & Jara, 2022, p. 65). As public opinion turned against refugees, the absence of a personal push from the presidency resulted in a restrictive turn in Peru's refugee approach. Only months after Vizcarra took office, PTP was suspended and Venezuelans were required to remain at the border while their asylum claims were processed (Levaggi & Freier, 2022; Freier & Pérez, 2021; Aron Said & Jara, 2022).

Rather than an idiosyncratic 'one-off', the insecurity of the presidency that led to Kuczynski's deposal is a structural feature of Peruvian politics. Peru has experienced multiple coups and extended periods of military dictatorship. This is not a relic of the past: Over the last seven years, Peru has been governed by seven presidents, one of whom held office for a single day and another who remained in the post for only five days (Foulkes & Norton, 2022). Two of these leaders were removed through impeachment, including Vizcarra himself. In December 2022, former President Pedro Castillo, a political outsider with no prior elected experience, was arrested and removed from office for attempting to dissolve Congress as it prepared to impeach him, throwing the country into a political crisis (Aquino, 2022). This is a far cry from Colombia, where, as discussed above, presidents can expect, with near-certainty, to fulfill their full, four-year terms. Ironically, moreover, while Peruvian presidents must confront the prospect of near-term removal for pursuing unpopular policies, they also have the ability to run for non-consecutive terms in office, meaning they must consider the longer-term political implications of unpopular policies, unlike their Colombian counterparts, who can only serve a single term. In sum, the insecurity of the presidency and domestic political volatility in Peru made it much more difficult for senior officials to pursue pro-refugee policies that were increasingly out of step with public opinion.

3. International orientation

Peru's political volatility also left little space for its leaders to focus on external affairs. Unlike Colombia, Peru had little experience leveraging engagement on global issues to secure concrete domestic benefits. Despite a strongly externally oriented economic strategy that was based on

open trade and courting foreign direct investment, Peru has never been a regional ambassador in terms of representation or participation in global bodies or fora like the G20 or OECD. This has led to an insular perspective vis-à-vis external initiatives that one World Bank interlocutor characterized as 'provincial' (Haas, 1980; personal communication, November 30, 2022). As a recent, comprehensive treatment puts it:

> An examination of Peruvian foreign policy in the modern era reveals the full extent to which it continues to be characterized by a strong linkage between domestic and foreign concerns with domestic considerations often influencing, if not determining, aspects of the nation's international posture…[and] external policy often a reflection of domestic politics. (St. John, 2023)

These accounts suggest it was easier for Peru's leaders to see the present, potentially existential political costs of refugee support than envision any future benefits the international community might provide their country – and, by extension, their own political prospects – for supporting the displaced.

4. World Bank dynamics

Amid the backdrop of public resistance, political volatility, and an insular foreign policy perspective, the World Bank simply did not make a strong enough case for Peruvian leaders to adopt GCFF assistance. The Bank's country director for Peru was broadly supportive of using the GCFF, and, as noted above, the Bank initiated multiple discussions with the Peruvian authorities on the GCFF. However, whereas the country director had deftly connected the GCFF to Colombia's desire for global respect and prestige, in Peru, the Bank did not effectively explain, nor the government readily grasp, the multidimensional value of using GCFF resources to contribute to the global public good of refugee support. One Bank official working on the issue at the time put this clearly (personal communication, November 30, 2022):

> The problem was on their end and on [the Bank's] in not explaining the deal well enough. It wasn't a question of not adding enough financial carrots. Even if the Bank could've gone well beyond concessional finance and added other goodies, that was not the issue for Peru. Their government didn't understand the indirect benefits, and we didn't explain them well enough either.

The Bank's limited willingness to explain, or intimate, the longer-term indirect benefits of leveraging concessional finance for refugee support played a key role in Peru's decision not to use this assistance.

According to another Bank staff member, there were also internal barriers within the World Bank to using the GCFF in Peru (personal communication, February 7, 2023). Pro-refugee conditions were initially included in multiple development policy operations only to be replaced with conditions that advanced other corporate priorities, such as those related to climate change. Further, some project team leaders resisted using the GCFF, which extends the time

needed to prepare projects, in the face of institutional incentives that encourage teams to develop packages quickly. The incentives for project teams to accelerate the preparation process proved so strong that even support from the Bank's Peru country management to slow the process to meet GCFF requirements could not overcome them. Coupled with shifts in government leadership, these internal barriers hindered the Bank's ability to promote an inclusive approach in strategic interaction with Peruvian authorities on the refugee issue.

f. Conclusions and theoretical implications

This chapter's case study of Colombia offers strong support for my argument while illustrating additional factors that also need to be considered. Just as it did in Jordan, exceptional finance from the GCFF made a key difference in convincing the Colombian government to adopt progressive refugee policies. While exceptional finance was necessary, however, it was not sufficient, and other factors played an essential role in convincing the government to increase and sustain its refugee support. Historical ties between the Colombian and Venezuelan people, the security of the Colombian presidency, and Colombia's aptitude for translating international contributions into domestic benefits joined with GCFF support to make the country's inclusive approach toward displaced Venezuelans more likely. Further, a proactive World Bank country director deftly focused his Colombian counterparts on the external prestige they would garner for using GCFF assistance to contribute to the global public good of refugee support, and was willing to bear the added administrative and time costs to make the GCFF available.

In Peru, by contrast, the absence of these supportive factors meant that exceptional finance proved insufficient to induce contributions to a progressive refugee approach. Peru bore strong similarities to Colombia on a range of contextual variables and on the availability of exceptional finance through the GCFF. However, relatively weak historical ties with the Venezuelan people, a fractured political system, and foreign policy insularity left political leaders unwilling and unable to adopt inclusive polices as public opinion became increasingly hostile toward Venezuelans. While World Bank country leadership supported using the GCFF and initially included pro-refugee conditionality in multiple programs, it did not devote adequate political capital, persuasion, or administrative resources to convince Peru to increase their contributions to the global priority of refugee support, nor did it compel World Bank project teams to slow their preparation processes in order to access GCFF resources. As a result, these pro-refugee conditions did not ultimately make it into World Bank-funded programs, Peru has not adopted GCFF assistance, and refugee support remains far more limited than in Colombia.

The key role of factors other than exceptional finance in shaping Colombia and Peru's decisions on whether to adopt pro-refugee reform evidences the cost-benefit calculus that I theorize takes place when aid recipients consider whether to take costly development action. As I have argued, a range of factors influence recipient decisions on costly (and non-costly) reforms. These include the economic implications of adopting the reform; the domestic political consequences; the country's legacy, or not, of engaging on such issues; the impact on relations with regional peers, donors, and other international actors; and idiosyncratic dynamics like a leader's personal inclination toward the policy in question. Leaders take decisions to satisfy

multiple priorities, with the most important being to maximize the probability of political survival. When considering policy options, they size up the costs and benefits of different courses of action, and take decisions based on the outcome that best serves their interests.

In Colombia and Peru, we see this cost-benefit logic on clear display. When deciding what to do about the growing number of Venezuelan refugees amassing at their borders, Colombian and Peruvian leaders sized up their options; the relationship between available decisions and a range of economic, political, historical, personal, cultural, and external factors; and the costs and benefits of potential outcomes. Based on this calculus, leaders decided which action to take. In the Colombian case, leaders assessed that the combination of exceptional finance and other relevant factors would, on net, leave them better off adopting a supportive approach to refugees than a restrictive one; in Peru, Vizcarra and the rotating cast of presidents who have followed him reached a different conclusion. We thus see through the case study on Colombia and the shadow study on Peru how the offer of IFI exceptional finance interacts with other dynamics to shape recipient decisions on costly development action, just as my theory expects.

Other conclusions about the strength and limitations of my argument can also be drawn from Colombia and Peru. The cases, firstly, show the importance, and difficulty, of leveraging the economic benefits of exceptional finance to assuage societal concerns on costly development action. As discussed in chapter 3, costly action entails financial costs: whether offering services and housing to refugees; providing rebels investment, jobs, and other carrots to lay down their arms and make peace; or diverting public spending from things societies need and demand today – like schools, clinics, and roads – to prevent crises that may or may not occur tomorrow. IFI exceptional finance helps ease the politically difficult financial trade-offs of taking costly action by putting more resources back into state coffers, but this benefit is not always readily interpretable to publics who see spending on non-nationals, rebels, and potential crises as taking money away from investments they value more. It thus falls to state leaders, IFI officials, and others in the international community to tell a clear and compelling story about the direct benefits exceptional finance will provide today, while also ensuring publics understand the indirect benefits that international credit for costly action can provide tomorrow.

Second, Colombia and Peru highlight a more prosaic trait of IFI bureaucracy that can play a key role in whether recipients use, or even receive, exceptional finance. As noted earlier, securing eligibility for GCFF resources required the World Bank to draft detailed background documents and legal agreements. Similar to their sovereign counterparts, IFI managers have a range of priorities and scarce time, money, political capital, and administrative capacity to achieve them, but decisions on which priorities to pursue often get pushed from headquarters to country directors who may or may not see sufficient value in pressing governments to take costly development action or pressing staff to devote adequate time to the process of gaining eligibility for exceptional finance. Bias toward devolving key aspects of country engagement to field-based managers shows how intra-institutional dynamics can shape the ability of IFIs to use exceptional finance to induce costly action and signals the need for more research on principal-agent relationships not only between IO management and staff generally, but between IO leaders in headquarters and their managers in the field more specifically (Hawkins et al., 2006).

A third and final point concerns the critical importance of issue linkage and the indirect benefits of contributions to global priorities. As an interlocutor working on Colombia's accession to the GCFF noted, the financial benefits the country stood to gain were, while crucial to offsetting the economic and political costs of supporting refugees, rather modest in a $319 billion economy (World Bank, 2023e). Equally important to Colombia was the recognition it would receive from the World Bank, donors, and others in the international community for welcoming Venezuelan refugees, recognition that was codified when the Bank authorized a major deviation from standard lending policy to allow Colombia, an IBRD member, to borrow at IDA-level interest rates. Beyond the immediate gains and prestige of being one of the few IBRD members to receive a concessional World Bank loan, Colombia knew it could parlay international gratitude into concrete benefits and support on other priority issues, a dynamic that was also on clear display in the study on Jordan in the prior chapter. The ability to claim credit for contributions to global development priorities and leverage that for future gains illustrates a strategic benefit of IFI exceptional finance, and suggests a path for future work on issue linkage, which has focused primarily on inter-state bargaining but could also usefully explore efforts by developing countries to leverage interactions with IOs to advance strategic interests (Haas, 1980).

In sum, the case studies of Colombia and Jordan, and the shadow case study of Peru, have built on the quantitative analysis in chapters 4 and 5 by providing a detailed qualitative assessment of the effect of IFI exceptional finance on aid recipient decision-making on costly development action. These studies found evidence that exceptional finance can play a key, causal role in convincing recipient countries that taking costly action is more beneficial than reverting to their best available alternative, a finding that lends strong support to my theoretical argument. However, the studies also showed that other factors – historical ties, political leadership and stability, international orientation, and IFI country management – interact with exceptional finance to shape recipient decisions on costly action. In some cases, these factors leave countries more inclined to take such action, as in Colombia, while in others they leave countries less willing to do so, as in Peru. In the concluding chapter, I link these and other findings from the empirical analysis of the last four chapters, draw implications for my theoretical argument, and highlight avenues for future research.

8. Conclusion: Findings, Implications, and Avenues for Future Research

This dissertation argues that the provision of exceptional financial incentives can help donors, particularly international financial institutions (IFIs), compel developing countries to take actions that are necessary to tackle the world's most pressing challenges and advance leading development goals. From combating climate change, to managing refugee crises, to preventing pandemic, averting disasters, and resolving civil war, success depends on collective action by the global community. IFIs have adopted these goals as top institutional priorities and sought to compel member states to adopt aid programs that promote their realization. However, contributing to shared global priorities imposes costs that can divert resources from aid recipients' higher domestic priorities. In developing countries, using scarce foreign aid for global goals instead of national priorities can present a tradeoff governments are often unwilling to make, even if they broadly support the costly development actions IFIs request of them.

I have contended that exceptional financial measures help address this misalignment in IFI and recipient preferences by increasing the incentives recipients have to take costly development action. Exceptional finance works through carrots and sticks. Offering financial sweeteners, like lowering the interest rates of IFI loans or exceeding typical limits on the volume of IFI finance, can make aid programs that promote global goals more attractive. Threatening penalties, like withholding aid for recipient priorities unless they also adopt programs preferred by IFIs, can make costly action more palatable. Leveraging positive and punitive measures, I have argued, allows exceptional finance to reduce the opportunity costs recipients incur for adopting programs that support global goals and increase the costs of foregoing them.

My study seeks to contribute to, and fill a gap in, the academic literature on aid conditionality. While many scholars find that conditions have had mixed success in compelling reforms that IFIs desire, I argue that existing work pays inadequate attention to two variables that shape the strategic environment when IFIs and recipients sit down to negotiate aid deals: preference alignment and the IFI toolkit. When recipients and IFIs both support, or at least do not strongly oppose, aid program conditions, IFIs can offer financial terms that deviate from their normal institutional practices to increase the benefits recipients would receive from adopting IFI conditions, increase the costs of walking away, and produce aid deals that would leave both parties better off than their best available alternatives. I argue exceptional finance should be especially effective in inducing conditioned reforms that promote the costly development actions of peace, crisis prevention, and global public goods provision, which represent leading IFI objectives that recipients broadly support but do not consider top aid priorities.

a. Findings

Preference alignment and exceptional finance shape the strategic environment of negotiations on aid conditionality in ways that existing work has not fully considered, and my dissertation has analyzed how these factors affect aid program outcomes. The evidence presented generally supports my argument. Leveraging a mixed methodological approach, I found IFI exceptional finance can increase the likelihood developing countries will adopt costly aid conditions, but

that other factors also often play an important role. Using data from World Bank programs from 2010-2019, the statistical analysis in chapter 4 showed aid recipients were more likely to agree to, and comply with, costly conditions when the Bank offered exceptional finance. I also found the Bank was more likely to offer exceptional finance for costly action programs, and that recipients were more likely to adopt conditions of all types, not just costly ones, when offered exceptional finance. These findings are consistent with and support my theoretical argument.

Building on the findings of the regression analysis in chapter 4, chapters 5-7 sought to assess the causal impact of exceptional finance on aid recipient decisions. In chapter 5, I conducted a regression discontinuity design analysis that leveraged the arbitrary income cutoff that helps the World Bank determine IDA and IBRD membership and, by extension, which countries have access to IDA's exceptional finance facilities. This analysis yielded findings that were largely unsupportive of my argument that access to exceptional finance through IDA compels recipients to take costly action: In narrow bandwidths around the cutoff, access to exceptional finance through IDA actually left countries less likely to adopt costly conditions, and while this effect moderated considerably in bandwidths further from the cutoff and in an optimal bandwidth generated by statistical software, it remained counter to my theoretical expectations. The high share of always-treats – countries that remained in IDA and continued to have access to its exceptional resources long after their incomes exceeded the cutpoint – hindered my ability to analyze aid program outcomes in similar IDA and IBRD members. I sought to address this challenge by studying costly action outcomes in a small set of countries before and after their recent graduation from IDA to IBRD, and this analysis also produced unsupportive findings. In general, I conclude that the RDD analyses in chapter 5, while largely unsupportive of my theoretical expectations, are not decisive, and that future research should seek to better address the high-share of always-treats to enable more direct comparisons of similar IDA and IBRD countries near the income threshold, both through qualitative research that deepens the same-country counterfactual approach I used late in the chapter and through modifications to the difference of means and two-stage least squares analyses I also employed.

Finally, the case studies in chapters 6 and 7 offered additional support for my argument, but highlighted importance scope conditions and nuance. The analysis found exceptional finance can play a key, causal role in inducing costly reforms, but that this effect is often contingent on a range of other factors. In Jordan, the offer of exceptional finance provided essential benefits, recognition, and prestige that tipped the government toward increasing socioeconomic support for Syrian refugees. Exceptional finance played a similar role in inducing support for Venezuelan refugees in Colombia, even as other factors like historical ties to Venezuelans, domestic politics, international orientation, and a strong push by World Bank management also proved necessary to generating that costly outcome. In Peru, by contrast, exceptional finance could not surmount domestic political instability, weaker historical ties to Venezuela, and a more insular foreign policy, while the institutional push by the Bank proved less robust than in Colombia.

My findings also have implications for academic research and policy. While grounded in a social science framework, I set out to answer a question inspired by my work at the World Bank: When can exceptional financial incentives from IFIs convince countries to adopt globally-

beneficial and forward-looking policy reforms? In exploring this question, I hope to have contributed to a rich body of scholarly work on aid conditionality that asks whether putting restrictions on aid is an effective way to induce behavior change from recipient nations. However, I also hope to provide concrete, actionable insights to practitioners seeking to make progress on some of the world's most pressing development challenges. Below, I discuss the academic and policy implications of my findings, including avenues for future research.

b. Academic implications

My work revisited a longstanding debate in the literature on aid conditionality. Writing primarily in the 1990s and 2000s, many scholars concluded that donors' use of aid conditions to induce reforms from developing countries seldom achieved their aims. Scholars writing both contemporaneously and later added important theoretical and empirical nuance to these generally pessimistic findings (Dunning, 2004; Girod, 2012). A study in 2005 observed that aid recipients had, in fact, complied with a strong majority of conditions in World Bank policy-based lending programs from 1980-2002, an empirical finding that the data presented in chapter 4 reconfirms for the period from 2010-2019 (Koeberle, 2005).

Writing in 2018, a leading scholar on foreign aid, Desha Girod, sought to capture the status of the debate on aid conditions. Girod (2018) summarized the balance of academic work up to that point as finding that 'the initial incentives to comply with aid agreements are the driving force in agreement compliance and therefore aid effectiveness' (p. 1). Yet, these incentives are only likely to be strong in a small set of circumstances, namely when 'recipients have good governance…, democratic institutions, and political stability, or when recipients lack strategic importance to donors' (p. 1). Girod encouraged further study on compliance with aid conditions and emphasized that 'future research should analyze whether certain types of aid influence compliance' (p. 1). From a policy perspective, Girod urged donors seeking reform to focus on increasing the incentives that recipients have to comply with the conditions they attach to aid.

My dissertation takes up the challenge posed by Girod. I show how exceptional finance, a type of aid that scholars had previously neglected, can increase recipient incentives to adopt IFI conditions, both by increasing the benefits they attain for doing so and the costs they incur for declining. However, my work also challenges the prevailing sentiment about the non-financial factors that shape recipient incentives to adopt conditions. While good governance, democracy, and political stability may all contribute to higher rates of adoption, I argue that the extent to which conditions reflect recipients' priorities also plays a critical role in the incentives they have to adopt them, independent of the factors that scholars have previously stressed. Conditions that depart less from recipient priorities are more likely to be adopted, especially when they align with leading IFI priorities, because IFIs are in those cases more likely to offer exceptional financial measures that further increase recipient incentives to adopt conditions IFIs propose.

My argument, and the evidence I have offered to support it, implies that aid conditionality may prove effective in a wider set of circumstances than scholars previously envisioned. I have focused on three: IFI programs that promote the costly development action of peace, crisis prevention, and global public goods provision. These are areas where, to use Girod's phrase,

the 'initial incentives' recipients have to adopt conditions are likely to be reasonably strong, and also where IFIs are more likely to leverage exceptional financial measures like side payments or penalties to ensure conditions gain traction. This expands the range of contexts in which conditionality can succeed. That is because shifting incentives through exceptional finance does not fully depend on recipient governance quality, democracy, or political stability, even as these factors can make the adoption of conditions more or less likely, as the case studies have shown.

Indeed, as my research demonstrates, exceptional finance can help induce costly action in a wide range of political and institutional settings that extant theories would not anticipate. It can do so, for instance, in unstable, poorly governed, flawed democracies, as it did in the World Bank-funded 2017 *State Consolidation Development Program* in the Central African Republic. Exceptional inducements can also work in entrenched autocracies, as in the 2014 *Third Power Sector Reform Development Policy Operation* in Vietnam. The effectiveness of IFI exceptional finance can also be seen in anocracies like Egypt, where persistent threats of macroeconomic crisis and the political upheaval of the Arab Spring and its aftermath have not prevented the adoption of costly conditions in multiple World Bank lending programs, like the 2016 *1st Programmatic Development Policy Loan on Fiscally Sustainable Energy & Competition*. My work suggests that the prevailing view on the settings in which aid conditionality is likely to achieve its aims should be revisited to include a wider range of strategic and substantive contexts.

Even as my dissertation focuses on the ability of IFIs to leverage conditions to compel reform from aid recipients, its findings have implications for cooperation on other global issues. In a broad sense, my research is fundamentally about the ability of international actors to shape the behavior of sovereign states. As reviewed in the Introduction, a large body of work has studied the efficacy of such interventions in a range of substantive domains – from humanitarian military interventions that seek to mitigate mass atrocities, to treaties and international legal structures that aim to shape and constrain sovereign action, to political and economic sanctions that try to compel behavior change from countries or their leaders, such as the extensive sanctions imposed on Russia following its invasion of Ukraine in February 2022 (Barnett, 2002; Morgan, Bapat, & Krustev, 2009; Simmons, 2000). Despite their contributions, these studies face a challenge similar to the one that has hindered work on aid conditionality: insufficient attention to how much sovereign targets oppose or support the actions external actors want them to take, as well as to the tools interveners can leverage to shape sovereign decisions.[67]

Many studies on intervention have explored the preferences and incentives of target states, but the lack of a theoretical framework that incorporates preference alignment and external actor toolkits continues to limit understanding of whether, when, and how international intervention is likely to succeed. Some of the most instructive work in this area has focused on efforts to build military coalitions and enhance global public health. Henke (2019) shows that, when

[67] Although, as noted earlier, in forthcoming work, Matanock, (n.d.) looks at cases in which fragile states 'invite' interventions from external actors, ceding core aspects of their sovereign authority, including delegating influence over certain aspects of their security institutions to foreign actors. This research provides a novel look at a subset of intervention spaces in which recipients welcome, rather than oppose, external engagement in sovereign affairs.

trying to construct military coalitions, 'pivotal states' often need to offer political, economic, security, or other inducements to disinterested allies who neither oppose nor support the proposed alliance and require added incentives before agreeing to incur the costs of joining them. Looking at efforts to address HIV/AIDS in Africa, Dionne (2017) shows that, while many civilians welcome external support to combat the disease, they often lobby local implementers to divert resources to activities they view as more important to their daily lives and wellbeing. This dynamic mirrors experience during the COVID-19 pandemic, when 'health leaders in many low-income countries [saw] the coronavirus…as just one of many out-of-control contagions – and often not the deadliest one in their borders…and increasingly [questioned] Western donors who want[ed] them to put Covid-19 on the top of their priority lists' (Payne, 2022).

While these studies highlight the importance of preference alignment to the efficacy of international interventions, they underspecify how external actors can address misalignment and which incentives are likely to prove most effective in different contexts. My work has taken a step toward filling this gap. As I have shown, when states broadly support the actions or goals that intervenors promote, they sometimes simply need a nudge to prioritize them over, or alongside, domestic objectives. External actors often have tools to provide that nudge. Financial assistance that deviates from donor norms and allows recipients to pursue domestic priorities while also contributing to global goals represents one such framework of incentives.

However, in some cases, non-aid forms of exceptionality may provide a needed nudge. One can imagine expedited accession to desired groups, such as the European Union, preferential trade access to lucrative export markets, or visa-free travel or expanded immigration quotas providing necessary incentives to compel sovereigns to take costly action in service of external goals. Even purely non-financial forms of exceptionality, like deviating from longstanding policy to issue formal apologies related to decades-old disputes, may help convince targets to shift course and contribute to tackling shared challenges (Mattes, n.d.). The key – for scholars and policymakers – is to identify levers that offer the target state as much benefit from supporting external objectives as reserving that contribution to pursue domestic priorities.

That foreign inducements can sometimes compel behavior change from sovereign actors is not a novel insight. Instead, what I am proposing is greater focus on the alignment of target and external actor preferences and how external actors can leverage specific, exceptional incentives to close gaps in that alignment. Identifying policy circumstances in which the priorities of sovereigns and external actors are broadly, but imperfectly, aligned can help scholars and policymakers better anticipate substantive and strategic contexts in which international intervention is more and less likely to succeed. A key extension of my work would be to explore whether different types of exceptional incentives are better than others in closing preference alignment gaps on different types of substantive issues – for example, do apologies tend to work best in compelling neighboring states to contribute to regional military coalitions – and, if so, to build a framework that matches incentives with issues and actors. Doing so would help expand the relevance and applicability of my theoretical argument from the realm of foreign aid to a broader set of issues that routinely see intervention in the international arena.

c. Future research

Beyond the extension highlighted immediately above, my dissertation has opened a range of questions and avenues for future research. I discuss three of them here. The first is whether my argument on exceptional finance travels to a wider set of costly development actions than those I have focused on here, namely peace, prevention, and global public goods. A second, related avenue is for in-depth, qualitative analysis of crisis prevention and global public goods provision, to complement the case studies I presented in chapters 5 and 6, which all focused on the global public good of refugee support. The third is to further identify more appropriate measures for punitive forms of exceptional finance, building on the theoretical articulation of cross-portfolio conditionality in chapter 3 and descriptive empirical findings in chapter 4.

A lingering question of this study is whether my argument travels to other types of aid programs, beyond the costly development actions of promoting peace, prevention, and global public goods. In Chapter 3, I argued that three traits characterize costly programs in the goldilocks, 'middle range' of recipient preferences. These include programs that increase the availability of resources for recipients' higher priorities, confer reputational benefits on the recipient state, and promote external goals that also advance national goals. However, programs must also align with the top priorities of IFIs. As I have argued, it is this alignment that leads IFIs to provide the exceptional financial incentives that make adopting costly development actions sufficiently appealing for aid recipients to undertake.

Because IFI priorities shift across time, it is likely that the profile of programs that reflect their priorities and that recipients broadly support also evolve. In chapter 2, I showed that IFIs' strong focus on macroeconomic structural adjustment in the 1980s and 1990s gave way to stronger focus on social development in the 2000s. Focus on social development has been joined in the most recent decade by promoting peace, preventing crises, and pursuing global public goods, like climate change mitigation. Multilateral lending institutions, especially the World Bank, have introduced a range of exceptional financial measures to incentivize these top institutional objectives. They have also come under growing pressure by leading donors to offer still more financial support to encourage them (Yellen, 2022, 2023).

Still, one can already see other types of programs emerging as top IFI priorities that may also fit the profile of costly development actions where exceptional finance can help recipients and IFIs cut mutually beneficial deals. One example is the issue of debt sustainability. In the aftermath of the COVID-19 pandemic, the debt burdens of developing countries have become increasingly unsustainable, and several countries have either defaulted on their sovereign debt, like Zambia, Ghana, and Sri Lanka, or face growing default risk, like Pakistan, Egypt, and Tunisia (Debt Management Facility, 2022). As a result, debt sustainability has climbed to the top of the IFI and broader global development agenda. The World Bank, IMF, and G20 have called for greater debt relief, launched new mechanisms to promote it, and spotlighted the topic in policy talks at the IMF-World Bank 2023 Spring Meetings (Georgieva, 2023; Malpass, 2023; Paris Club, 2020).

From the perspective of aid recipients, debt sustainability can be seen as a costly development action under the conceptual framework introduced in chapter 3. Most countries – particularly those facing imminent default – likely want to have a manageable sovereign debt burden, just as they broadly support more peace, fewer crises, and the emergence of global public goods. However, just as in the case of those costly objectives, reducing debt to manageable levels – a benefit that is difficult for selectorates to perceive in the short or medium term, if ever – requires countries to take actions that may conflict with, and crowd out resources for, other more pressing, visible domestic priorities. Cutting debt almost invariably necessitates reduced fiscal spending, which can threaten the popularity and survival of political incumbents. As with the costly actions I explored earlier, inducing recipients to pursue debt sustainability may thus require IFIs to offer exceptional financial incentives, like accelerated and wider-ranging debt relief and the suspension of debt service payments while longer-term relief agreements are worked out, and there are signs that such steps may be emerging (IMF, 2022c; Malpass, 2023).

Besides debt sustainability, gender equality and social sustainability represent other examples of issues where the use of exceptional finance may allow IFIs to induce costly action from aid recipients. Gender equality has clearly emerged as an IFI priority. All World Bank-funded projects are 'screened' for their effect on women and girls, and those seen as closing gender gaps receive a 'gender tag' that help projects advance through the internal clearance process (World Bank, 2019d). However, gender equality presses against sociocultural norms in many developing countries, and recipient governments may view focused efforts to promote it as inconsistent with their own views, politically threatening to promote, or simply not an aid priority. In these cases, IFIs may have to sweeten the pot, or introduce costs, for clients to consider programs that explicitly advance gender equality as worthy of scarce aid resources.

Social sustainability, for its part, was embedded in the growing World Bank focus on social development in the 2000s but has more recently captured increasing attention as a discrete institutional priority. This concept refers to efforts to enhance social inclusion, cohesion, and resilience within and across groups, and to ensure societies view as legitimate the processes through which key political, economic, and social decisions get made (Barron et al., 2023). IFI programs that seek to increase social sustainability would need to make extra, measurable efforts to engage local communities, strengthen links across antagonistic groups, and improve the ability of marginalized peoples to affect policy. These efforts add time and costs to project preparation and implementation, yield benefits that prove difficult to see or claim credit for, and can thus present disincentives to recipient governments – and IFI staff – who face pressure to quickly deliver concrete results. Still, given the importance of inclusive, cohesive, resilient, and empowered societies to strong development outcomes, IFIs may in future see the provision of exceptional financial support to advance social sustainability as a worthy strategic play.

In addition to assessing whether my argument travels to a broader range of costly development actions, it is also important to conduct further qualitative research on the applicability of my argument to the three costly actions that underpin this dissertation. All case studies in chapters 6 and 7 – those on Colombia and Peru and on Jordan and South Sudan, respectively – focused on the global public good of refugee support. However, to further interrogate the quantitative

evidence presented in chapters 4 and 5, a next step would be to produce detailed case studies that explore the costly actions of peace promotion and crisis prevention. The quantitative analysis provided useful insight on the effect of exceptional finance on all three costly actions across a large number of aid programs over time. However, understanding the extent to which, and how, the presence and absence of exceptional finance actually affected recipient decisionmaking requires the type of in-depth analysis that qualitative case studies provide.

Several specific cases could help identify the impact of exceptional finance on the costly actions of peace and prevention. In chapter 7, I briefly discussed conflict resolution in the Philippines, offering initial evidence that historical experience and access to exceptional financial resources through World Bank trust funds increased the willingness of former President Duterte to promote peace in the restive southern region of Mindanao. However, more work is needed to flesh out whether and how other forces identified in the existing case studies – such as the Philippines's international orientation, the political security of the presidency, and others – might have impacted Duterte's decision. A similar study could assess conflict resolution in Colombia, where several false starts finally led to a comprehensive peace accord in 2016 after a decades-long war with the FARC rebel group. Prior to its peace deal, Colombia, like the Philippines, had intermittent, but relatively marginal, access to peacebuilding trust funds, which offers a chance to compare whether and how differential access to exceptional finance contributed to varied outcomes on the costly action of promoting peace in these two countries.

A third comparator on the question of peace could be Thailand. Like the Philippines and Colombia, Thailand is an emerging economy with a longstanding, peripheral conflict, in the nation's south. Unlike Colombia and the Philippines, however, which have large IFI lending portfolios, Thailand's relatively higher income level has seen it borrow very little from IFIs in recent years. My theory anticipates that the criticality of IFI finance to recipient budgets offers IFIs key leverage in pushing for reforms: The absence of this leverage in Thailand and higher levels of IFI dependence in the Philippines and Colombia provides variation on this strategic aspect of IFI-recipient interaction. A case study could explore how this variation has affected the ability of IFI exceptional finance to induce peace-promoting activities in southern Thailand.

Moving beyond peace and global public goods provision, future qualitative work could assess the third costly action on which my dissertation has focused: crisis prevention. The crises induced by natural disasters and infectious disease outbreaks lend themselves to useful intra-regional case comparisons. The first could explore variation in preventive efforts by the South and Southeast Asian nations of Indonesia, Nepal, and Sri Lanka, countries with similar risk profiles that face recurrent shocks from cyclones, earthquakes, and other disasters but have varied access to IDA exceptional finance: Indonesia is in IBRD, Nepal is in IDA, and Sri Lanka graduated from IDA to IBRD in 2018 only to 'reverse graduate' in 2022 due to an economic crisis, as discussed in chapter 5. A second study could assess the efforts of West African nations to prevent renewed pandemic following the Ebola outbreak of 2014, when countries with relatively similar geographic, economic, and political profiles in the Economic Community of West African States received offers of World Bank exceptional finance through the *Regional*

Disease Surveillance Systems Enhancement Program but with different take-up and outcomes.[68] Expanding the qualitative research of my dissertation would help understand the role of IFI exceptional finance in inducing a broader range of costly development actions, highlight other factors that may affect its influence, and clarify the scope of my theoretical argument.

Finally, future work should further theorize, conceptualize, and develop more appropriate measures for punitive, stick-based forms of IFI exceptional finance. In Chapter 3, I theorized IFIs could use the concept of cross-portfolio conditionality to increase recipient incentives to take costly development actions by threatening to suspend or deny aid for the recipient's priority programs if they failed to also adopt programs prioritized by the IFI. My experience at the World Bank has shown me that while IFIs do often press recipients to pursue certain programs over others, such pressure is usually communicated privately. This forced me to leverage a measure of cross-portfolio conditionality whose ubiquity stretched the concept of exceptional finance too far from the exceptionality that I argue makes it an effective inducement. The challenge of operationalizing cross-portfolio conditionality made it difficult to analyze my argument that punitive forms of exceptional finance can, along with positive incentives, also induce costly action from aid recipients, but there is reason to believe that recipients respond not only to carrots but also to sticks, and future work should identify other, more readily measurable types of penalties that IFIs draw on in exceptional circumstances to compel reform.

d. Policy implications

Beyond its academic relevance, my work has implications for development policy and practice. Perhaps the most important policy implication of this work is that IFI officials should be more creative and forward-leaning in using financial resources to incentivize recipient governments to undertake reforms that IFIs deem top priorities. As discussed in chapter 2, the World Bank has a standard set of interest rate and loan maturity options that it offers recipients in aid program negotiations. It is also constrained by prudential rules that limit the volume of lending exposure it can have to a given IBRD member and by policy rules that cap the size of overall allocations to IDA members. While these standards help advance important objectives – such as hedging against default risk to preserve a healthy IBRD balance sheet and incentivizing reform and good governance in IDA countries – hewing rigidly to standard loan pricing, exposure limits, and allocation caps may hinder the ability of the World Bank and other IFIs to advance global development goals they have codified as institutional priorities.

My findings suggest that IFIs should come to the negotiating table prepared to offer recipients a wider range of interest rates and loan maturities to incentivize costly action. This is particularly the case in IBRD countries, which do not have access to the exceptional financial facilities that have been created for IDA countries in recent years. My work suggests IFIs should be able to offer a 'price point' that would leave recipients at least as well off from adopting IFI priority programs as from their best available alternative. As the studies of Jordan and Colombia show,

[68] West African countries that accepted exceptional assistance through the program include: Benin, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

this might include the ability to offer concessional, IDA-level interest rates to IBRD members for promoting global goals, like supporting refugees. Longer maturity durations would similarly allow countries space to pay loans over great periods of time, reducing fiscal pressure and creating space to pursue other domestic priorities. Such differentiated loan pricing would offer IFIs a new tool to close gaps in how much they and recipients value costly development action and provide incentives that make these programs sufficiently attractive for recipients to adopt.

IFIs could also more strategically employ exceptions to the single-country borrower limit that places prudential caps on how much finance they can lend to a given recipient. In addition to approaches that have already been used in limited circumstances – such as using donor-backed guarantees to 'offload' exposure risk from IFIs to bilateral donors[69] –, IFIs could consider other ways to exceed lending limits for priority loans. One option would be to increase the lending limits of countries that are willing to adopt costly development actions and offsetting this by reducing the lending caps of countries that are not. This hybrid, carrot-stick option would reward countries for adopting costly action and penalize countries for not doing so by reducing the amount of IFI finance they have available. My research suggests that shifting expected benefits and potential outcomes in this way would alter the strategic environment of IFI-recipient aid program negotiations and leave recipients more inclined to adopt costly action.

The need to offer greater financial incentives for costly development actions is already being recognized. In recent months – as the years-long work on this dissertation came to a close –, the United States and other key western donors have pressed the World Bank to undertake an 'evolution roadmap' with an aim to scale-up its provision of finance by orders of magnitude. The primary objective of these calls for reform is to significantly increase the amount of resources the Bank has to fund global public goods, especially climate change mitigation and pandemic prevention, as well as to address fragility, conflict, and violence (Development Committee, 2023; Yellen, 2022, 2023). One of the main measures the World Bank and its donors are considering is the use of concessional finance to incentivize countries to adopt more programs that advance these global goals, while expanding the Bank's balance sheet to allow it to continue funding country-specific objectives at adequate levels. These recent events support my argument in two ways: First, they evidence my contention that costly development actions have moved to the forefront of the global development agenda; second, they indicate that the Bank and donors see a need to offer extra incentives to offset the opportunity costs recipients would incur from using aid for global goals instead of, or alongside, domestic priorities.

As the challenges facing humanity become increasingly interconnected and existential, the need for collective action to address them will become more urgent and severe. International relations scholars have an important role to play. Since its founding, the discipline has sought to shed light on the drivers of, and prospects for, conflict and cooperation in the international arena. Within international relations, work on international intervention, generally, and aid conditionality, more specifically, have explored how external actors can apply different forms of

[69] This practice has been used in Iraq, Egypt, and Jordan and served as one measure in the operationalization of exceptional finance as my independent variable in the statistical analysis in chapter 4.

pressure to compel sovereign actors to comply with, or contribute to, global norms and objectives. These strands of research have much to say about whether and how the world will be able to avert disaster and achieve greater levels of peace and prosperity moving forward, and the argument and analysis in my dissertation aim to contribute to that discussion.

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