

Hernandez, Diego

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## Does Inclusion Guarantee Institutional Autonomy? The Case of the Inter-American Development Bank

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Department of Economics



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**Does Inclusion Guarantee Institutional Autonomy?  
The Case of the Inter-American Development Bank**

**Diego Hernandez**

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March 2013

# **Does Inclusion Guarantee Institutional Autonomy?**

## **The Case of the Inter-American Development Bank**

**Diego Hernandez\***

**February 2013**

### **Abstract**

Discontent with the substantial influence of major global players in International Financial Institutions (IFIs) has raised a call to restructure these organizations. Greater involvement of borrowing members in lending decisions has been proposed in order to limit the exposure of development resources to the interests of large donors. No consensus has been reached, however, if such eventual reforms would create more independent and efficient IFIs. Through its analysis of the allocation patterns of the Inter-American Development Bank (IDB), this paper contributes to the debate on whether greater representation of borrowers in the governance of IFIs truly translates into fairer lending practices. Far from being a fully democratic institution, the IDB is nevertheless an example of a major IFI not dominated by non-borrowers, and its organization and lending behavior may well provide some clues to resolve the broader debate. Empirical results from examining IDB loan commitments granted during the 1970-2007 period reveal that control over IDB allocation decisions by its largest stakeholder, the US, is limited. This atypical finding is a result of the strong influence of borrowing members in the governance of the Bank. In particular, interest heterogeneity among the US and large borrowers leads to distributional conflicts, thereby creating the opportunity for greater institutional autonomy.

**Keywords:** Inter-American Development Bank, United States, Governance, Aid Allocation.

**JEL classification:** F35, F53, O19.

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\* Heidelberg University, Department of Economics, Bergheimer Str. 58, D-69115 Heidelberg, Germany; Telephone: +49 (0)6221 54-3853; Email: [diego.hernandez@awi.uni-heidelberg.de](mailto:diego.hernandez@awi.uni-heidelberg.de)

## 1. Introduction

Discontent with the substantial influence of major global players in International Financial Institutions (IFIs) has raised a call to restructure these organizations. Large decision power imbalances among stakeholders have been partly blamed for the failure of multilateral aid in promoting development (e.g. Alesina and Dollar 2000; Rajan and Subramanian 2008; Bueno de Mezquita and Smith 2012). It has been suggested that greater involvement of borrowing members in the lending allocation process limits the exposure of development resources to large donor interests, although no consensus has been reached on how such eventual reforms can create more independent IFIs (e.g. Bird and Rowlands 2006 vs. Copelovitch 2010). This debate naturally raises the question whether a larger representation of borrowers in the governance of IFIs does truly translate into fairer lending practices as some critics of the current aid architecture may recommend.<sup>1</sup> Even though fully democratic IFIs are virtually nonexistent, the Inter-American Development Bank (IDB) provides an example of a major IFI not dominated by non-borrowers, and its configuration may well provide a hint to answer this question. By analyzing IDB lending patterns, this paper investigates the extent to which major donor influence is limited in the governance of IFIs with considerable borrowing member participation.

Development aid allocation has been subjected to notorious criticism. Contrary to its principles, it has been documented that interests of donors shape the direction of lending decisions. A wave of studies highlight the fact that developing countries that are politically aligned to the G7, especially to the US, and with significant trade and investment potential are preferred by donors when choosing where to dispense aid. These studies have shown that geopolitical and commercial interests are particularly important for the US (Wang 1999; Alesina and Dollar 2000; Kuziemko and Werker 2006), that commercial interests are particularly important for Japan (Alesina and Dollar 2000; Tuman and Strand 2006), and that particular interests play a minor role for small donors such as Canada, Denmark, Netherlands, Norway and Sweden (Alesina and Dollar 2000; Gates and Hoeffler 2004).

Similar patterns have also been identified in multilateral aid allocation, with major stakeholder interests having been shown to substantially explain IFIs' lending variability. Recent empirical studies reveal that political allies of the US are more likely to participate in IMF programs (Thacker 1999; Dreher et al. 2009a), receive more favorable loan terms (Oatley and Yackee 2004; Dreher and Jensen 2007) and be subject to lighter punishments for noncompliance with conditions from this same institution (Stone 2004; Dreher et al. 2010). Preference heterogeneity among G5 governments has been also highlighted as a key determinant of variation in IMF loan size and

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<sup>1</sup> See Bird and Rowlands (2006) and Linn et al. (2008) for recent discussion on reform proposals to IFIs.

conditionality, leading to either conflict, “logrolling” within the largest stakeholders or greater institutional autonomy (Copelovitch 2010). World Bank lending has likewise been linked to US commercial- (Fleck and Kilby 2006; Bresslein and Schmaljohann 2013) and geopolitical-interests (Andersen et al. 2006; Dreher et al. 2009b; Kilby 2013). Moreover, analysis of disbursements by the Asian Development Bank (ADB) suggests that interests of its two major donors, namely the US and Japan, carry more weight in allocation decisions than recipient needs (Kilby 2006; Kilby 2011; Lim and Vreeland 2013).

Taken as a whole, these studies point to the conclusion that major stakeholder overrepresentation in the governance of IFIs facilitates the canalization of their own political and economic interests in development countries in the form of multilateral aid allocation. In terms of policy implications, however, two alternate positions are revealed. The first group calls for changes within the structure of IFIs with a redistribution of vote shares, more frequent involvement with international financial markets, and greater independence of the boards of directors to hinder loan allocation decisions coinciding with major donor foreign policy objectives (Buirra 2005; Bird and Rowlands 2006). The second group suggests that the replacement of large donor votes with those of other countries will not necessarily result in more technocratic or independent IFIs, but rather, will simply substitute their interests with those of other large countries (Copelovitch 2010). Moreover, these studies often sustain that political manipulation guarantees the survival of IFIs (Dreher et al. 2009b).

In line with this argumentation, the larger historical participation of borrowing members in the governance of the IDB, compared to similar IFIs, provides a good framework with which to evaluate the extent to which the influence of major stakeholders is limited under more inclusive institutional structures. The IDB is the largest Regional Development Bank (RDB) and main source of development finance for the Latin America and Caribbean (LAC) region.<sup>2</sup> Unlike the World Bank and the ADB, for instance, borrowing members of the IDB hold the majority of the voting shares and have always appointed the President as well as a very large proportion of the Executive Directors.<sup>3</sup> Nevertheless, it has been alleged that US political and commercial interests influence IDB allocation decisions. As an example, a \$58 billion loan to Nicaragua in 1985, at the time led by a leftist government, was claimed to be kept from coming to a vote as a result of a letter being sent by the then US Secretary of State George Schultz to the IDB president Antonio Ortiz (Babb 2009). As another example, the sharp decline in IDB lending during the 1980s has been attributed to strong

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<sup>2</sup> Please refer to Figures 1 and 2.

<sup>3</sup> Borrowing members of the IDB hold 51% of the voting share, this same figure is 39% and 46% for the World Bank and ADB respectively. Nationals of borrowing countries in the IDB take up 9 of the total 14 executive director positions, while in the World Bank they fill less than the half (10 of 24) and only half (6 of 12) of the ADB director positions. More details on the structure of the IDB are provided in next section.

disagreements between the same US presidency administration and large IDB borrowing members over further capital increases from the Bank. This ultimately resulted in the resignation of the then IDB president, Ortiz (Babb 2009; Humphrey and Michaelowa 2010). Moreover, limited US informal influence over the Bank, or weak control over rates of disbursements after loan approval, has been suggested to be a result of strong US formal influence over the lending decisions (Bland and Kilby 2012).<sup>4</sup> However, empirical research on the role of US interests in the LAC region on IDB loan allocation, considering the influence of large borrowing countries and possible overlap among their preferences, is scarce.<sup>5</sup> This study fills this gap and thus contributes to the debate over the restructuring of IFIs.

The aim of this paper is to evaluate how sensitive IDB loan commitments to borrowing members are to the influence of the US and other large donors. To do so, it makes use of panel data on IDB loan commitments during the 1970-2007 period, distinguishing the effects of explanatory variables across aid sectors and time. The key explanatory variables include the interests of large borrowers, the interests of the US and the differences between the preferences of these parties. Section 2 describes how the IDB is structured at its significance for the LAC region. Section 3 develops the hypotheses to be tested, while section 4 introduces the data and the estimation strategy. Finally, section 5 shows the main results and conclusions are presented in section 6.

## **2. The Inter-American Development Bank**

The creation of an organization to promote economic and social development in the LAC region had been already suggested during the First International Conference of American States back in 1890. The first concrete proposal to found such an institution came from the then Brazilian President, Kubitschek, in 1959, which was approved shortly afterwards by the Organization of American States. This process culminated with the drafting of the Agreement Establishing the IDB during that same year, making the IDB the first RDB in the World.

Initially composed of 19 LAC countries and the US, the IDB focused mainly on poverty reduction- and social-programs to address concerns that the region was susceptible to the spread of communism. During the following decades Bank membership expanded through the Americas and,

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<sup>4</sup> Bland and Kilby (2012) investigate whether IDB loans disburse faster when the borrowing country is geopolitically or economically important for the US. For this purpose, the authors use panel data techniques to analyze the impact of US interest on loan disbursements controlling for prior commitments. This methodology seeks to assess donor informal influence or after loan approval. The study, however, does not find evidence of such influence. The authors claim that these results are a consequence of greater degree of US formal control, or prior to loan disbursements, although they do not directly evaluate it.

<sup>5</sup> To the best of my knowledge there does not exist any study considering the impact of borrowing countries' interests on IDB lending decisions.

since 1976, countries outside the LAC region have been accepted as members. Korea and China were the most recent additions, joining in 2005 and 2009 respectively. Today the Bank consists of 48 members: 26 borrower and 22 non-borrower members. Borrowing countries are restricted to the LAC region. These hold 51% of the voting share, with Argentina and Brazil holding the largest shares with 11% each, followed by Mexico and Venezuela with 7% and 6% respectively. Non-borrowing countries therefore hold 49% of the voting share, with the US alone capturing 30% of this share, while Japan and Canada hold 5% and 4% respectively. Borrower members are grouped into 2 categories of higher and lower income according to their GDP per capita in 1997, 65% of the total lending volume went to the lower income group in this year (IDB 2011).

IDB loan commitments over time compared with development aid flows from other sources to the LAC region are depicted on Figure 1. As observed, the IDB has traditionally been a leading institution on development finance in the LAC region. The IDB allocated \$7.4 billion per year on average over the 1970-2007 period, while the same figure for the World Bank (restricted to the LAC region) is around \$8.1 billion. Difference in commitment levels between both institutions is considerable in the second half of the 1980s, in favor of the World Bank, and in the second half of the first decade of the 2000s, in favor of the IDB. The first difference is explained by a sharp decline in IDB lending, associated with disagreements between the US presidential administration and large borrowing members in 1986 on the Bank's seventh general capital increase and on a proposition to alter its voting rules (Babb 2009). Capital increases were agreed in 1989 under the then new IDB president Enrique Iglesias, in exchange for devoting 25% of disbursements to policy-based lending, while the proposition by the US on the alteration of the voting rules was dropped (Babb 2009); commitment levels follow afterwards their trend before the then capital increase negotiations started. The second difference is, in contrast, due to a large decrease in World Bank lending to the LAC region, which might indicate preference towards the IDB during economic booming periods (Humphrey and Michaelowa 2010). Such a preference for the IDB might be justified by discontent on policy stipulations coming along with World Bank loans, leading countries to seek alternative creditors, which are easier to find when borrowing countries' economies are in good shape (Humphrey and Michaelowa 2010). For the rest of the period, lending by both institutions to the LAC region remains at similar levels.

Note that the yearly average of IDB loan commitments is more than four times larger than that of US bilateral aid flows to the LAC region over the 1970-2007 period. The latter figure is around \$1.7 billion and does not even surpass IDB commitments levels following the late 1980s plummet. Figure 2 relates IDB loan commitments with loan commitments from other main RDBs over the same period. Except for a couple of years, the IDB has approved larger loans than its counterparts over the whole period. During this period, the IDB was consequently the largest RDB in terms of aid allocation,

well above the ADB, the second largest RDB, which committed \$4.3 billion in development aid on average every year.

Moving to the governance of the IDB, it was modeled after the World Bank, and is therefore similarly structured in a number of ways. First, a Board of Governors is the highest level of authority in the hierarchy of the Bank. Each member country appoints one governor, whose voting power is proportional to the capital in the Bank contributed by his or her country. The IDB's governors are ultimately responsible for overseeing the Bank's activities and administration, although in practice they delegate most of those responsibilities to a Board of Executive Directors. This Board is composed by 14 executive directors representing the 48 member countries and also includes 14 alternates, who have full power to act in the absence of their principals. They are in charge of approving loan and guarantee proposals, policies, country strategies, the administrative budget, setting interest rates, and making decisions on borrowings and other financial matters. Representatives from Canada and the US are permanently appointed in the Board of Executive Directors, while the remaining 12 executive directors need to be elected by the Board of Governors following pre-established country group rules. Additionally, as in the World Bank, resources are largely available to borrowers via a hard window, the Bank's Ordinary Capital (OC), and a soft window, the Fund for Special Operations (FSO). Similarly to the World Bank's IDA, the FSO is used to provide concessional loans to the poorest countries in the region (Bolivia, Guyana, Haiti, Honduras, Nicaragua, and to a lesser extent Guatemala and Paraguay), whose assets are made up of contributions from IDB member countries.

The IDB differs substantially from the World Bank and other IFIs, especially in terms of borrowing member representation. As pointed out before, regional borrowers hold the majority of the votes, with 51% of the share, while the World Bank and the ADB are clearly donor predominant institutions, where borrowers are assigned the less-than-majority shares of 39% and 46% respectively (ADB 2011; IDB 2011; World Bank 2012). The IDB arrangement is advantageous in protecting borrowing member interests, as decisions met at the Board of Executives often require a simple voting majority, including decisions regarding loan and guarantees approval (IDB 1959). For instance, the US always needs the support of at least one borrowing country executive to block undesired loans. It also means that projects pursued by large borrowers, especially Argentina and Brazil, are difficult to obstruct. During the Bank's seventh general capital increase in 1986, the US proposed an approval threshold of 65% for loans and guarantees, which would have allowed the US to easily block undesired loans, e.g., with the support another non-borrower like Canada (Babb 2009). The proposition received strong opposition from large borrowing members and was finally dropped, instead a compromise was accepted to give executive directors the power to delay loan disbursements that they did not approve (Babb 2009).

Additionally, the IDB president is elected by its Board of Governors, and has historically been a national of a borrowing country. This is in contrast to the World Bank and the ADB whose respective presidents are always American and Japanese citizens. Nevertheless, the IDB's executive vice president is always appointed by the American government. Nationals of borrowing countries in the IDB also constitute 9 of the total 14 executive directors, while this proportion in the ADB is the half (6 of 12) and in the World Bank is less than half (10 of 24).

Finally, IDB concessional lending (FSO) has been historically very low compared to other IFIs. It comprised only 4% of total IDB disbursements in 2011, while this figure was 38% for the World Bank (IDA) and 18% for the ADB (Asian Development Fund – ADF) for the same year (ADB 2011; IDB 2011; World Bank 2011).<sup>6</sup> Concessional lending is arguably more subject to donor interests. Since most of concessional funds come from non-borrowing member contributions, the space for these to pursue their own political agendas might be greater increased if concessional lending is relatively high. In the case of the IDB's FSO, unlike its counterparts at the World Bank and the ADB, the US has a special arrangement in which it can veto any of the Fund's allocation decisions, thus giving it substantial control over IDB concessional lending. Therefore the small figure for the IDB is likely to limit major stakeholder influence. This particularity has resulted from the ability of big borrowers to resist transfer of net income from OC lending to the IDB's soft window, reflecting strong influence of borrowing members in the governance of the Bank (Birdsall 2003).

These characteristics in the structure and organization of the IDB differ from those of similar IFIs in terms of borrower representation, and might limit US control over lending decisions. The influence of large borrowing member interests and their relationship with the US are determinant on how this inclusive structure of the IDB can lead to greater institutional autonomy. Given this evidence, a set of hypotheses are developed in the following section.

### **3. Hypotheses**

The debate on how to establish independent IFIs, in which lending is oriented primarily towards recipient-country need, can be divided into two lines of argument. While both parties agree that inefficient allocation results from the overrepresentation of major stakeholders, they hold different views of how IFIs' governance can be improved. The first line of argument maintains that lending free of political and economic interests can be achieved through the redistribution of voting shares, a loan supply which is less dependent on members' capital contributions and more reliant on international financial markets, greater independence of the boards of directors, and election cycles which avoid

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<sup>6</sup> Cumulative numbers are 9% for the IDB in the period 1961-2011 and 24% for the ADB in the period 1966-2011.

overlapping with the local political cycles of major stakeholders (Buirra 2005; Bird and Rowlands 2006; Linn et al. 2008). Those on the other side of the debate consider political manipulation to be an inherent feature of IFIs such that impartial lending is virtually impossible to achieve (Dreher et al. 2009b; Copelovitch 2010). This scenario is based on the view that more democratic institutions will simply substitute some stakeholders' interests with those of some other countries.

With its borrower-oriented organizational structure, the IDB represents a good example with which to evaluate the validity of the claims of both sides in the debate. In contrast with similar multilateral organizations, borrowing members have a substantial say in the governance of the Bank, which has allowed them to effectively protect their own interests. Evidence suggests that the weight of large borrowers in lending and administrative decisions is crucial. Therefore, allocation patterns might not respond immediately to political and economic interests of the Bank's largest donor, the US. The relationship that the US has with IDB's largest borrowing members, Argentina, Brazil and Mexico is critical in assessing the extent to which US influence is constrained. As mentioned in the previous section, US political agenda pursuance is rather difficult without the support of these three countries. Copelovitch (2010) provides a straightforward framework to understand the interaction between the US, Argentina, Brazil and Mexico, and its effect on IDB allocations. Under this setting, preference intensity and preference heterogeneity among these four countries is a key factor of lending variation. Preference intensity refers to the collective interest held by all four of the largest shareholders in a borrowing country. The impact of preference intensity on lending is simple: when the four leading members have a strong interest in lending to a particular borrower, for instance a big commercial partner or a key political ally, IDB loans should clearly reflect their economic and political interests. On the other hand, when preferences of the four leading members concerning a country are weak, IDB loans should instead reflect the Bank's technocratic interests.

Preference heterogeneity denotes for the degree in which the interests of the major stakeholders towards a specific country are different. This might have two possible outcomes on IDB lending patterns which could potentially reveal whether or not the four leading members are acting under a cooperative scheme. The first possible outcome, which would indicate that there is no cooperative scheme between the four lending members, is that greater preference heterogeneity would lead to a distributional conflict within the Board of Executives; each member backing different policies when their interests diverge. For example, it might be the case that the US strongly supports the development of a project in a country with which it has firm political ties, while Brazil opposes it given divergences with the government of this same country. A reduction in the loan size is then expected to be the price demanded by Brazil in exchange for setting aside its concerns regarding political differences with the third country and supporting US interests. Under this scenario, greater preference heterogeneity would be reflected in smaller loan approvals for the borrowing country,

offsetting the impact of preference intensity. Or in the example, the outstanding position of Brazil with respect to US preferences would prevent the realization, at least partially, of additional lending for the specific borrower which would have potentially been achieved given the relative high support of the group of four leading members as a whole. Clearly, in such an organization, political influence from the US or any of the other three large members is likely to be constrained, creating scope for the IDB to increase its autonomy.

Alternatively, under a cooperative scheme, the four largest shareholders support the same policies even when interests diverge. In this case, rather than creating a distributional conflict within the Board of Executives, greater preference heterogeneity might create opportunities for “logrolling” among the IDB’s four largest shareholders. When governments of these four countries disagree over the size of a specific loan, they might support the request of the most interested counterpart in order to receive a similar treatment for their own preferred loans. A hypothetical setup might be the approval of a larger than proposed loan for a country that is an important commercial partner for the US but of relative economic insignificance for Argentina, Brazil and Mexico. This chain of favors system is plausible because this group of countries has to repeatedly interact with each other over time and may find it useful to perform inter-temporal bargains in exchange for future reciprocity. As a consequence, a borrowing country will receive larger loans as preference heterogeneity increases, complementing the effects of preference intensity. Imagining this in the hypothetical setup, the outstanding position of US preferences in the group of four main shareholders would further drive the effect of additional lending to the specific borrower initially derived from the relatively high support of the group as a whole, led by US preferences. In this case, the structure of the IDB allows the US to pursue its own political agenda. As for the case of Argentina, Brazil and Mexico they are expected to benefit from disproportionately large amounts of the Bank’s resources as their own local conditions are obviously their topmost priority.

Furthermore, preference heterogeneity is expected to be conditioned by preference intensity, as suggested by Copelovitch (2010). In other words, there is an interaction effect between both variables. Copelovitch predicts that preference heterogeneity will have stronger effects when there is higher preference intensity towards a borrowing country. The reasoning behind this anticipation is that when large shareholders have a strong collective interest in a particular borrower, it is expected that institutional autonomy is limited as the principal shareholders exert great influence over lending decisions. Control over the allocation of aid is therefore less likely to occur if collective interest is weak. This is expected to be true for both distributional conflict and “logrolling” opportunities scenarios. However, this assumption cannot be held for the IDB in case of a distributional conflict. Unlike in Copelovitch’s (2010) analysis, here large stakeholders are also borrowing countries, and the expected effect of preference intensity might differ quite considerably

in the first scenario. If preference heterogeneity leads to a distributional conflict, large borrowers are less likely to experience important loan size decreases as their privileged position in the Board of Executives as large shareholders enables them to offset this adverse effect. Argentina, Brazil and Mexico obviously display high preference intensity towards their own local conditions and when dealing with their own cases are all very unlikely to accept significant loan reductions. Therefore, minor borrowers, or countries of low preference intensity for the four decisive shareholders, as they are smaller commercial partners and of less political relevance, are expected to be most affected in cases of distributional conflict. In contrast, when preference heterogeneity between the US, Argentina, Brazil and Mexico creates “logrolling” opportunities, predictions over lending trends are not substantially different from those predicted by Copelovitch (2010). Large borrowing members, as large shareholders of the Bank, participate directly in the “logrolling” opportunities and are subsequently more likely to observe stronger loan size increases under preference heterogeneity. Consequently both large borrowers and countries with high preference intensity for the four decisive shareholders are expected to be most affected when “logrolling” opportunities are created. Given this line of argument, the following hypothesis is proposed:

H1: IDB lending is exposed to US interests only under a cooperative scheme with the Bank’s largest borrowers. If, in contrast, preference heterogeneity leads to a distributional conflict, IDB lending is weakly exposed to US interests as scope for institutional autonomy is created.

Additionally, there are factors other than the structural and governance characteristics of the Bank that might explain the prevalence of donor influence in allocation decisions. For example, the US and recipient countries might prefer to exert control over aid diverted only into certain sectors. If development aid is perceived as a reward to compensate political allies or as an instrument to promote exports in the LAC region, then projects that create political capital, enforce economic relations with the US and generate large rents should be more exposed to donor influence. These projects are more likely to impact recipient countries’ economic conditions in the short run, such as employment and income. On the other hand, projects which are the Bank’s main official priorities, such as those focusing on poverty alleviation and inequality reduction, should be less affected by political and economic interests. Such projects target structural socioeconomic deficiencies in recipient countries and tend to impact the state of the economy in recipient countries gradually over long periods of time.

In order to distinguish short-run from long-run impact projects the methodology in Clemens et al. (2012) is strictly followed. This study classifies development aid sectors, depending on the expected time that it will take for their impacts to be realized; i.e. either short-term or long-term. After replicating a number of previous works on aid effectiveness, the study finds that development

aid turns out to be more effective in promoting growth when considering only those flows diverted into short-term impact sectors. Short-run impact sectors include transport and storage, communications, energy generation and supply, financial services and businesses, agriculture (agronomy, forestry and fishing) and production (industry, mineral resources and mining, construction and trade). Long-run impact sectors comprise education, health and population policies, water supply and sanitation, social infrastructure and multi-sector aid (women's rights, environment protection and tourism). Commodity aid and emergency assistance are not included in either category and classified as "other". This classification is appropriate because it discriminates sectors that impact economic activity from those that do not, and are arguably more likely to be subject to political influence.

Finally, donor influence may vary over time, as donors' interests change and they gain or lose the power to influence decisions. More specifically, several empirical studies have pointed that in the Cold War period development aid was heavily influenced by donor interests in the developing world (Dreher et al. 2009a). The World Bank publicly admits that "(...) during the Cold War years aid was politically motivated. Now however aid is being delivered to countries most in need, and to those who show they are determined to use it well."<sup>7</sup> Taking these two factors into account, the following hypotheses have been formulated:

H2: IDB lending to short-run impact sectors is more exposed to US interests than lending to long-run impact sectors.

H3: IDB lending during the Cold War period was more exposed to US interests than in the period afterwards.

#### **4. Data and model**

The data set includes all loan committed by the IDB to every borrowing member during the 1970 to 2007 period.<sup>8</sup> Given different membership entrance dates of bank members, the panel is unbalanced, containing 943 observations distributed among 26 countries.<sup>9</sup> There are no missing values in the full sample.<sup>10</sup> Figure 3 describes the historical distribution of IDB allocations over borrowing members. As can be seen, lending is largely concentrated among the largest stakeholders:

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<sup>7</sup> World Bank, FAQ, [www.worldbank.org](http://www.worldbank.org) (last accessed 01.02.2013)

<sup>8</sup> IDB projects including more than one borrowing member simultaneously are not included in this analysis. These represent, however, only 3% of all resources committed for the 1970-2007 period.

<sup>9</sup> Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela joined the IDB in 1959; Trinidad and Tobago in 1967; Barbados and Jamaica in 1969; Guyana in 1976; The Bahamas in 1977; Surinam in 1980; lastly Belize in 1992.

<sup>10</sup> Zero values have been double checked with IDB reports directly.

Brazil received on average 19% of the Bank's yearly loan commitments, while Argentina received 14% and Mexico 13%. These figures, in absolute numbers, are \$1.1 billion, \$870 million and \$713 million respectively. There is, however, a large variability of these proportions over the 1970-2007 period. Brazil received 48% of total IDB commitments in 1999 or nearly \$5 billion, largely explained by the granting of two large loans of \$2.3 billion and \$1.2 billion. These two loans correspond to programs to maintain levels of social spending and credit supply to the private sector respectively to offset the global financial crisis. In contrast, Brazil received less than 1% of total loans committed by the IDB in 1988 or only \$11 million. Similarly, 38% of total loan allocations in 1998 or \$4.5 billion were granted to Argentina, mainly driven by a \$2.6 billion loan (the largest ever granted by the IDB). It consists of a structural adjustment program to guarantee macroeconomic stability driven by fears of spillover effects following the Asian and Russian financial crisis. Conversely, in 1990 this same country obtained less than \$1 million, representing less than 1% of total IDB funds for that year. Variability in loans committed to Argentina and Brazil reflect the large decrease in overall lending for the 1987-1990 period and the outstanding allocation levels for the 1998-2000 period.<sup>11</sup> In contrast, there was less variance in the loan commitments received by Mexico over the entire period. The smallest share of total IDB loan commitments received by Mexico occurred in 1998, when it received 3% or almost \$400 million. The largest share it received was around 32% or nearly \$2 billion in 2000, which is less than half the highest allocation received by Brazil and Argentina for the entire period. On the other side of the distributional hierarchy is the Bahamas, Barbados, Belize, Guyana, Haiti, Surinam and Trinidad and Tobago, each of them receiving less than 1% of total resources committed by the IDB for the 1970-2007 period. However, except for Haiti and Trinidad and Tobago, the share of capital that each of these countries contributed to the Bank was also less than 1%. The large majority of borrowing countries did not receive IDB funding for at least for one year during the period of analysis. The longest periods that countries went without a loan are Venezuela with 11 years, Trinidad and Tobago with 9 years, and Bahamas and Haiti with 6 years each.

Figure 4 provides the evolution of IDB allocations for short-term and long-term impact projects separately. The description "other" includes projects, which can be classified as neither short-term nor long-term impact, such as food aid, emergency aid and administrative costs. The graph describes a clear structural break in lending patterns around 1989, coinciding with the long awaited and controversial agreement on the Bank's seventh general capital increase, and also with the beginning of the end of the Cold War. After 1989 resources allocated to long-term impact projects quadrupled, jumping from a yearly average of \$1.1 billion in the pre agreement period to a

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<sup>11</sup> Chile, Panama and Peru also experienced significant drops in commitments levels during the period 1987-1990, as no new IDB loans were approved to each of these countries in 1987, 1988-1990 and 1989 respectively. Conversely, commitment levels are outstanding for Colombia during the period 1998-2000, as it received more than \$1 billion in IDB loans in that year.

yearly average of \$4.1 billion in the post agreement period. Lending to short-term impact projects, on the other hand, remains stable when comparing both periods' yearly averages (\$3.2 billion and \$3.1 billion respectively). After taking into account the structural break, the graphs also show that the size of short-term impact projects in monetary terms is more volatile than that of long-term impact projects. The proportional distribution of loan commitments along sectors is presented in Figure 5, displaying numbers for the periods before and after 1989 separately. The jump of allocations to long-term impact sectors from one period to the other is largely explained by considerable increases in the contributions to social infrastructure and government and civil society projects. Other long-term impact sectors that received increased levels of commitments were education, health and multi-sector. On the other hand, commitments to several short-term impact sectors were redirected into one specific sector: large proportional decreases are seen in the agricultural, industrial and energy generation sectors, but these are compensated for by a steep surge in funding for the banking and financial services and business sectors.

The following models are proposed to test the different hypotheses:

$$\text{Comm}_{it} = \alpha + \beta_C C + \beta_F F + \beta_I I^{US} + \mu_i + \gamma_t + \varepsilon_{it} \quad (1)$$

$$\text{Comm}_{it} = \alpha + \beta_C C + \beta_F F + \beta_I I^{GR} + \beta_H H^{GR} + \beta_{IH} I^{GR} * H^{GR} + \mu_i + \gamma_t + \varepsilon_{it} \quad (2)$$

$$\text{Comm}_{its} = \alpha + \beta_C C + \beta_F F + \beta_I I^{US} + \beta_{IS} I^{US} * S + \omega_s + \mu_i + \gamma_t + \varepsilon_{its} \quad (3)$$

The dependent variable in (1) and (2) is the logged commitments level in constant dollars assigned by the IDB to a country  $i$  for a given year  $t$ . In order to test for US control over the Bank, as proposed in hypothesis H1,  $I^{US}$  in (1) includes different measures of US interest in the LAC region. Variables describing preference intensity and preference heterogeneity are comprised in  $I^{GR}$  and  $H^{GR}$  respectively in (2). In way it is recognized whether or not the four largest shareholders of the Bank are working under a cooperative scheme and its effect on lending, as stated in H1. This specification also includes an interaction term between these last two variables, as preference heterogeneity is expected to be determined by preference intensity. Moreover, the model in (3) adds a third dimension to the dataset. The dependent variable here is the level of commitments received by country  $i$  in year  $t$  and  $s$  sector type. Sectors are classified either as short-term or long-term impact, or as "other" if they cannot be included in any of the previous. In this specification, US interests are interacted with the sector types to identify different effects across short-term and long-term impact sectors, as expected in H2.  $S$  consists of three dummy variables signaling the sector type that projects belong to. To test hypothesis H3 the model in (1) is considered and US interests are interacted with a

dummy variables identifying the Cold War period.  $C$  is a matrix of controls variables and  $F$  contains loan demand and supply factors over all three specifications. Variables  $\mu$ ,  $\gamma$  and  $\omega$  control for country, year and sector type fixed effects respectively, and  $\epsilon$  is the error term. Given that loan commitments cannot take negative values, a zero lower limit tobit model is implemented in every specification. All regressions include standard errors clustered by country to allow for possible autocorrelation within a country and avoid spuriously small p-values.

Moving to the variables of main interest, four measurements are introduced to proxy for US commercial and political interests in the LAC region: US exports, voting compliance with the US in the UN General Assembly, US bilateral aid and temporary membership in the UN Security Council. US exports denotes the logged total exports from the US to country  $i$  in constant dollars for a given year  $t$ . This measurement accounts for market size, and therefore addresses the economic relevance of a country to the US (e.g. Bland and Kilby 2012). Period averages for this variable indicate that the US's largest export market in the LAC region is by far Mexico with \$40 billion in sales, followed by Brazil and Venezuela with \$5 billion and \$3.5 billion respectively. The smallest US trading partners in the LAC region are Belize, Bolivia, Guyana and Surinam, each of them accounting for less than \$150 million in average yearly exports during the period of analysis. Voting compliance with the US reflects the alignment of country  $i$  with the US in the UN General Assembly. Country  $i$  scores a 1 if it follows the US on a vote, 0 if it votes differently, and 0.5 if any of the two countries either abstained or was absent during a voting session. The alignment of country  $i$  in year  $t$  is its mean score in the same year. A country's behavior at UN General Assembly discloses affinity with US, and it is a widely used proxy for US political influence (e.g. Alesina and Dollar 2000; Andersen et al. 2005). Highest average values during the period of interest are observed in Paraguay (0.34), Guatemala (0.33) and the Dominican Republic (0.33). Lowest compliance levels are found for Guyana (0.23), Venezuela (0.24) and Mexico (0.24). US bilateral aid refers to the logged total amount of development assistance in constant dollars a country  $i$  receives from the US in a given year  $t$ . The aid allocation literature often recognizes US bilateral aid as mirroring US geopolitical and commercial interests, and has the advantage of being highly consistent measure across countries and over time (e.g. Fleck and Kilby 2006). Colombia, Haiti and El Salvador are the three most preferred countries of US aid agencies, as they received a yearly average of \$200 million, \$150 million and \$130 million respectively in the period of analysis. The recipients of the least amount of US bilateral aid were the Bahamas, Barbados and Trinidad and Tobago, each receiving a yearly average of less than \$500 thousand. Temporary membership in the UN Security Council is captured with a dummy variable, taking a value of 1 if country  $i$  served at the Council in year  $t$ , and 0 otherwise. The UN Security Council together with the UN General Assembly are arguably the most important international bodies in the world, and temporary members have been identified to receive disproportionately large amount of resources

from different IFIs during their serving period, possibly as a reward for supporting US initiatives in the Council (e.g. Kuziemko and Werker 2006; Dreher et al. 2009a; Dreher et al. 2009b; Lim and Vreeland 2013). For this reason, temporary membership at the Council might reflect US political preference towards a country. In the LAC region, Argentina is the country that has served the most during the period of analysis, having served on the UNSC during 5 separate periods. It is followed by Brazil and Panama, serving 4 times each. In contrast, 10 countries in the LAC region, almost half of the total, have never served at the Council: The Bahamas, Barbados, Belize, The Dominican Republic, El Salvador, Guatemala, Haiti, Paraguay, Surinam and Uruguay.

Preference intensity from the four largest shareholders, US, Argentina, Brazil and Mexico towards a specific country is proxied by two measures. The first consists of the average of logged total exports from each of the four main shareholders to a country  $i$  in year  $t$ . Given that Argentina, Brazil and Mexico are also recipient countries, in order to keep observations for flows from Argentina to Argentina, from Brazil to Brazil and from Mexico to Mexico, the exports value of their largest trading partner in year  $t$  is taken instead. In this way it is guaranteed that preference intensity towards the country self receives the highest value proportionally to export flows to other countries. The second proxy is the UN General Assembly voting compliance average of country  $i$  with each of the four main shareholders for a given year  $t$ . Similarly as before, voting compliance for the country pairs Argentina-Argentina, Brazil-Brazil and Mexico-Mexico take a value of 1, which is the upper limit of the variable. Construction of a preference intensity measurement based on bilateral aid is not possible given insufficient data on Argentinian, Brazilian and Mexican bilateral aid. Temporary membership in the UN Security Council is not a bilateral variable and therefore not suitable under this framework.

Preference heterogeneity is proxied by two measurements, following Copelovitch (2010): the coefficient of variation of exports and of UN General Assembly voting affinity. The coefficient of variation is the ratio of the standard deviation to the mean, expressed as a percentage, and measures the dispersion of exports and voting affinity along the US, Argentina, Brazil and Mexico for a borrowing country in a year  $t$ . Highest period average values for the coefficient of variation of exports are found in Belize (37%), Guyana (35%) and Suriname (28%). This implies that the significance of these countries in terms of exports is highly heterogeneous among the four largest shareholders of the Bank. For example Belize is a relatively important export market for the US and Mexico, while for Argentina and Brazil it is not; Guyana is a relatively important export market for the US and Brazil, while for Argentina and Mexico it is not. On the other side are Chile (8.2%), Uruguay (8.7%) and Colombia (9.5%), implying that these countries are of similar levels of importance for the four largest shareholders. As for the coefficient of variation of voting affinity, the differences

between country averages are not very large. Guyana stands at the top with 40% and Paraguay at the bottom with 31%.

Finally, the influence of other possible explanatory variables is captured with a set of controls. Variables in C include logged population and logged GDP per capita to control for country size and income, as well as a democracy index and the inflation rate. The democracy index is the average of two measures on political rights and civil liberties and captures possible allocation preference for certain forms of government (e.g. Alesina and Dollar 2000). The inflation rate is calculated using the Consumer Price Index. Following Sturm et al. (2005), F contains variables controlling for loan demand and supply factors. This study proposes potential economic and political determinants of development aid lending and identifies which of them are robust by performing Extreme Bound Analysis. Variables in F include government expenditures to GDP, current account balance to GDP, GDP per capita growth, investments to GDP, international reserves to GDP, international reserves change to GDP, logged checks and balances and elections. This last variable is a dummy variable indicating if main elections (presidential or parliamentary according to the political system) have been held in a country during that year, accounting for political cycles, which have been shown to influence aid allocation (e.g. Dreher et al. 2009a). Table 1 provides a detailed description and source of all variables in the models and Table 2 shows the summary statistics.

## **5. Estimation Results**

Table 3 shows results for specification (1). Regressions in columns 1 to 5 include only the set of basic controls in C while those in columns 6 to 10 additionally consider the loan supply and demand factors in F. Models in columns 11 to 15 contain only those controls in F or that are robust or significant across every regression in columns 6 to 10. As can be seen, all basic controls take the expected sign, however, only GDP per capita and inflation rate are significant at conventional levels. These initial results suggest that IDB allocations follow recipient needs as poorer countries receive more commitments from the Bank, and also that large borrowing members are not receiving disproportionate shares of Bank loans. The insignificant coefficient for the democracy index across most regressions is an indication that particular government regimes are neither being punished nor favored by the Bank. Low inflation rates are a main signal of macroeconomic stability, therefore the significant and negative coefficient for this variable indicates predilection for more economically conservative borrowers. Three variables from the loan supply and demand factors in F are consistently significant at conventional levels across the five regressions: current account balance to GDP, GDP per capita growth and the international reserves to GDP. These results indicate that countries with current account surpluses or relatively smaller current account deficits receive

significantly more resources from the IDB. This can be explained by their relatively lower likelihood to default on their repayments, making them less risky candidates for loans. The same argument applies for countries growing at faster rates, which are granted significantly more loans. Larger international reserve stocks are associated with significantly less borrowing/loans being received, presumably because countries with excess reserves are less financially constrained and therefore do not need to access IDB resources to carry out their own development agenda.

Turning to the variables capturing US interests, as can be seen at the bottom of Table 3, the coefficient of the variable for US exports is positive but fails to be significant at conventional levels, in all cases but one. This result indicates that IDB lending patterns do not follow US commercial interests in the LAC region. Similarly, borrowing members with closer political ties to the US, as measured by voting compliance at the UN General Assembly, do not receive more resources from the IDB either. The coefficient for this variable fails to be significant at conventional levels across every regression. In contrast, the coefficient for US bilateral aid is positive and significant at the 10% level across all regressions, making visible the weight of US motives to allocate development aid in the Bank's lending decisions. Lastly, the dummy variable denoting temporary membership at the UN Security Council is always insignificant at conventional levels, suggesting that the IDB is hermetic to US pressure to reward supporters at the Council. Variables are lagged on period in separate specifications to check for possible estimation biases and inconsistencies which might have derived from endogeneity. Coefficients remain similar for all four variables, suggesting that the direction of their effect has been addressed correctly.<sup>12</sup>

These outcomes diverge from parallel research on other IFIs, such as the IMF, the World Bank and the ADB, where the US's and other major donors' political and economic interests strongly shape the direction and intensity of development aid allocations. Here, IDB allocation decisions do not respond to US commercial interests in the LAC region and react only to one of the three proposed measurements of US political influence. Most likely, large borrowing members exert substantial influence in the governance of the IDB, pushing to finance projects of their own interest and reducing the space for US control. Unlike in other IFIs, recipient countries in the IDB have an advantageous participation in terms of voting shares, representation on the Board of Executive Directors, and control over concessional lending. These specific features might allow borrowers to secure relevant proportions of IDB loans regardless of political or economic alignment with the US. The next analysis seeks to determine whether limited US control together with the prominent involvement of the Bank's largest borrowing countries in the governance of the Bank has translated

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<sup>12</sup> Results with lagged variables are not shown but available upon request.

into the establishment of a more technocratic IFI or whether it simply serves the interests of a handful of the largest shareholders.

Results from (2) are exhibited on Table 4. As before, three alternatives for the specification are considered: including basic controls in C, adding loan supply and demand factors in F, and taking into account only robust controls in F. Exports average from largest four shareholders, which proxies for preference intensity, is positive and significant at conventional levels in two of the three regressions (columns 1, 5 and 9), suggesting that commercial interests of this group of countries, rather than those of the US alone, are motivating IDB lending decisions. However, as soon as the coefficient of variation of exports, which proxies for preference heterogeneity, is introduced in subsequent columns, the effect of the exports average weakens, turning insignificant in all models. The coefficient of variation of exports is negative across all regressions and significant at the 5% level when employing all controls and robust controls of F. Therefore, differences in commercial interests among the US, Argentina, Brazil and Mexico are likely to lead to a distributional conflict of IDB loans. As borrowers are penalized with smaller loans when disparities in commercial links to the largest shareholders are wide, this result also reflects that this group of influential countries is not operating under a chain of favors or a cooperative scheme.

The interaction term suggests that this effect is, however, conditional upon the size of the exports market.<sup>13</sup> Figure 6 depicts the marginal effects of the coefficient of variation of exports on IDB allocation for different levels of average exports.<sup>14</sup> As observed, the negative effect of the coefficient of variation of exports remains significant only for smaller export markets of the largest shareholders up until a certain threshold. After this threshold, the effect turns insignificant at conventional levels.<sup>15</sup> Observations that fell below this threshold include several years for Barbados, Belize, Guyana, Nicaragua and Surinam, and a limited number of years for Bolivia, Haiti and Peru. Table 5 predicts the percentage change in IDB lending derived from a one standard deviation increase in the coefficient of variation of exports, evaluated at different levels of exports average from largest four shareholders.<sup>16</sup> As can be observed, the predicted percentage change in IDB lending lies between -47% and -34% at a 5% significance level if the exports average from major shareholders is below \$500 thousand, and between -29% and -24% at a 10% significance level if exports average

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<sup>13</sup> When the model is nonlinear, as in the case here, the interaction effect cannot be evaluated simply by looking at the sign, magnitude, or statistical significance of the coefficient on the interaction term. Instead, the interaction effect requires computing the marginal effects of the first variable in the interaction term evaluated at different points of the other variable in the interaction term (Ai and Norton 2003).

<sup>14</sup> Marginal effects in Figure 6 are calculated using all control variables at mean values.

<sup>15</sup> The threshold corresponds to an average export value of around \$2 million, equivalent to 7.7 in the scale on Figure 6.

<sup>16</sup> The percentage change from a one standard deviation (*sd*) increase is calculated through the formula  $(e^{me} - 1) * sd * 100$ , where *me* are the marginal effects.

from major shareholders reaches between \$1 million and \$2 million. The impact on IDB lending fails to be significant at conventional levels if exports average from major shareholders surpasses the latter figure. Smaller export markets are also among the smallest shareholders in the Bank and their weight in lending decisions is probably not sufficiently decisive to offset the adverse effect of distributional conflicts between the largest shareholders. On the other hand, countries with larger export markets, which are the larger borrowing members in the IDB, are less likely to have restrictions placed on their own borrowing, suggesting that they have more power to resist the influences of other large shareholders. This is especially evident for Argentina, Brazil and Mexico.

The coefficient for voting compliance average with the largest four shareholders fails to be significant at conventional levels for all regressions (columns 3, 7 and 11). Similarly, the coefficient of variation of voting compliance also remains insignificant in every model (subsequent columns). Therefore, political allies of the US, Argentina, Brazil and Mexico do not receive significantly more IDB lending, nor do differences in a borrower's political support towards the largest shareholders determine the allocation of loans. This outcome might be explained by the fact that political support to this group of prominent countries is not very heterogeneous in the LAC region. As described in the previous section, voting compliance averages do not vary substantially across countries, probably because Argentina, Brazil and Mexico usually represent the interests of LAC countries worldwide and are also spokesmen for the smaller countries in the international political arena. Thus, rather than recognizing allies or enemies, these three countries consider the LAC region as being largely homogenous in political terms. In contrast, dissimilarities in the economic relevance of regional countries are broader, given different country sizes, geographical positions, development stages, natural resources abundances or market complementarities.

Table 7a shows results for (3) which observes the effect of US interests on IDB lending for short-run and long-run impact projects separately and tests for hypothesis H2. Coefficients for basic controls in C and for loan supply and demand factors in F are similar to those in (1) in terms of signs and significance. The only major difference is the coefficient for the current account balance to GDP which now turns insignificant at conventional levels. Marginal effects for the key explanatory variables are exhibited in Table 7b, in order to adequately interpret the interaction terms. Columns in Tables 7a and 7b relate to the same model specifications. As can be observed on Table 7b, US political interest variables react more often to lending for short-term impact projects. Marginal effects for US bilateral aid are robustly significant for short-term impact projects, while for long-term impact projects fail to be significant at conventional levels in most specifications. In addition, the UN Security Council membership dummy also becomes significant for lending to short-term impact projects along almost all regressions, while remaining insignificant for lending to long-term impact projects at conventional levels. Marginal effects for US voting compliance at the UN General

Assembly stay largely insignificant, except for the case of lending to short-term impact projects only when basic controls in C are employed. These results indicate that US influence over IDB lending decisions is limited but not completely absent. Loans for sectors that create political capital and generate large rents in the short-run are subjected to greater political pressure and hence more likely to be delivered to US allies. Examples of these sectors are energy generation and supply, financial services and businesses, and production (industry, mineral resources and mining, construction and trade), which are highly profitable and have large impacts in employment creation. Contrary to expectations, US exports respond robustly and exclusively to IDB allocations in long-term impact sectors. This means that the largest commercial partners of the US are rewarded with significantly larger loans that either target poverty alleviation and socioeconomic deficiencies or for other sectors that tend to respond in the long-run. One reason for this might be the fact that IDB lending to long-term impact sectors becomes very important only after the end of the Cold War (Figure 4) period, which is also characterized by large economic liberalization processes in the LAC region.<sup>17</sup> In addition, this sizeable increase in lending to long-term impact sectors is mainly explained by a rise in funds to the government and social infrastructure sectors (Figure 5), which are usually directed to boost public spending and provide macroeconomic stability during economic crisis.<sup>18</sup> Therefore, as the US and LAC economies become more integrated and dependent of each other following the Cold War period, the US most likely seeks to protect its export markets in the LAC region by influencing IDB decisions to deliver abundant resources to these commercially important countries to offset the adverse effects of economic downturns.

Finally, results for (1) after adding an interaction term between the variables of interest and the Cold War dummy are presented on Table 8a to test hypothesis H3. As before, Table 8b exhibits marginal effects to adequately evaluate the impact of US interest during and after the Cold War separately. Interestingly, the positive and significant effect of US bilateral aid obtained initially only prevails during the Cold War period, as this variable always becomes insignificant at conventional levels for the period after the Cold War. The other two variables proxying for US political influence are persistently insignificant during both periods. These results indicate that the apparent politically driven lending once achieved by the US during the Cold War, disappears thereafter, most probably as a consequence of a reorientation in the Bank's lending. After the seventh general capital increase in 1989, social infrastructure or long-term impact sector lending becomes the priority of the IDB,

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<sup>17</sup> US exports to the LAC region increased from a yearly average of \$18.7 billion during the Cold War to almost \$130 billion during the period afterwards.

<sup>18</sup> For example, the largest loans allocated in long-term impact sectors are: a \$1.4 billion loan to Argentina in 2003 to maintain spending in priority social programs for employment, job training, health and education, after financial constraints brought by the 2001 financial crisis; a \$1.2 billion loan to Colombia in 2003 to guarantee fiscal stability and social program spending to stimulate its economy; a \$1 billion loan to Brazil in 2004 to expand "Bolsa Familia" a cash transfer program.

identified to be less influenced by US political interests. As expected from results in previous analysis, US economic interests impact IDB lending significantly in the period after the Cold War, as a result of this reorientation in lending and the strong market liberalization process the LAC region experiences after the end the Cold War.

## **6. Conclusions**

This paper analyzes loan committed by the IDB during the 1970-2007 period, and investigates whether the US exerts influence over the Bank to pursue its own geo-strategic and commercial interests. Empirical results suggest that US control over IDB allocation decisions is limited, as overall lending decisions do not robustly respond to US political and economic interests in the LAC region. This exceptional outcome is most likely a consequence of the more equitable representation of borrowing countries in the Bank compared to other IFIs in terms of voting shares, staff appointed on the Boards of Governors and of Executive Directors, and control over concessional lending. In particular, the position of Argentina, Brazil and Mexico in the governance of the Bank serves to limit the scope for US control over lending decisions. Preference heterogeneity among the US and these three borrowing members towards other borrowers is shown to lead to a conflict in the distribution of IDB loans, providing an opportunity for the creation of a more autonomous organization. Nevertheless, US political influence is seen to be significant in cases of IDB lending to sectors that create political capital and generate large rates in the short-run. In effect, US control is found to be more constrained after the end of Cold War, as the Bank focused on lending towards sectors targeting poverty alleviation and socioeconomic deficiencies following the long awaited and controversial seventh capital increase in 1989.

Overall, IDB lending is not fully immune to US political and economic interests in the LAC region, but this influence appears to be fairly limited. This singular feature, as a result of the Bank's distinct structure among large IFIs, suggests that providing borrowing countries with greater representation within lending institutions does not necessarily translate into a substitution of control over lending but might, in fact, allow for more independent allocation decisions. It is crucial, however, that control mechanisms and incentives for participants within IFIs are established so that the interests of larger members do not collectively eclipse the interests of smaller members. Political manipulation is thus not inherent to multilateral lending and can be avoided if donors and beneficiaries are provided with similar opportunities to design the lending agenda and governance directives. The findings of this study favor the move to increase the autonomy and efficiency of IFI's through more equitable representation and therefore support recent initiatives to increment quotas in favor of emerging

economies. Nevertheless, whether lending that is free of political influence is more effective is still an open question.

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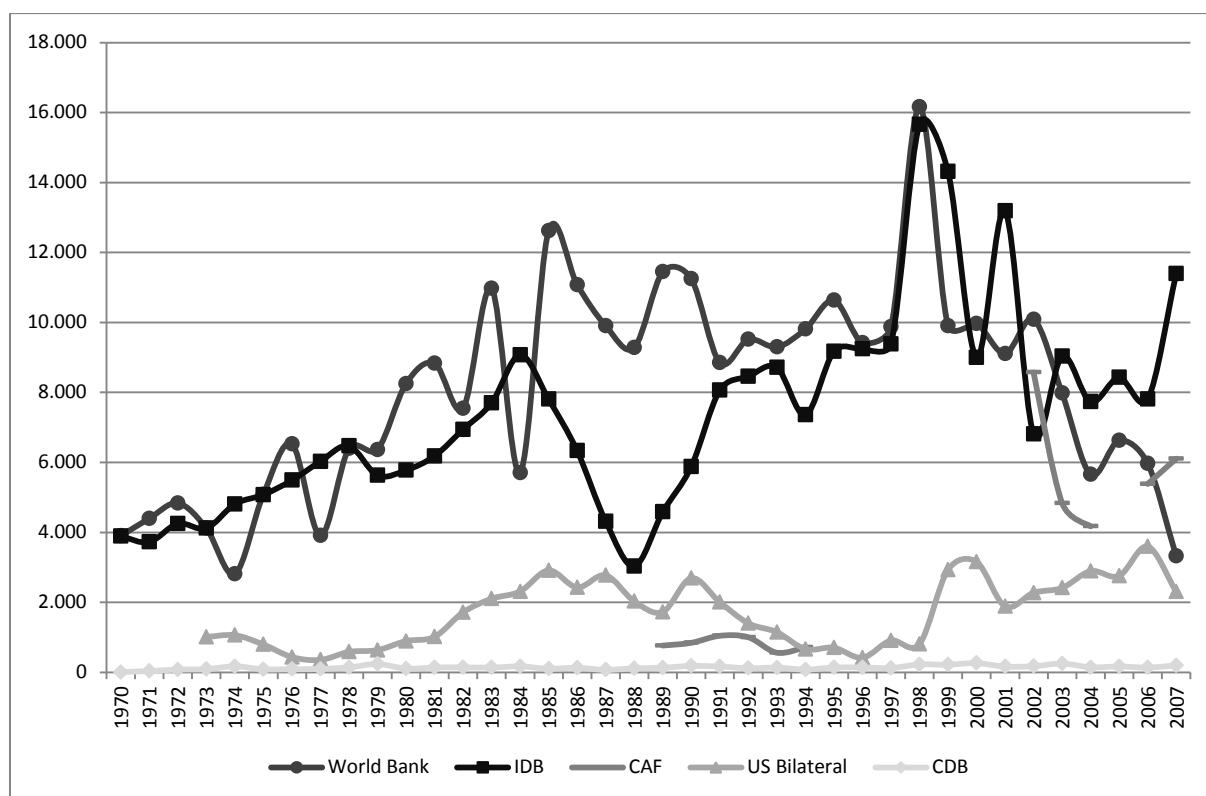
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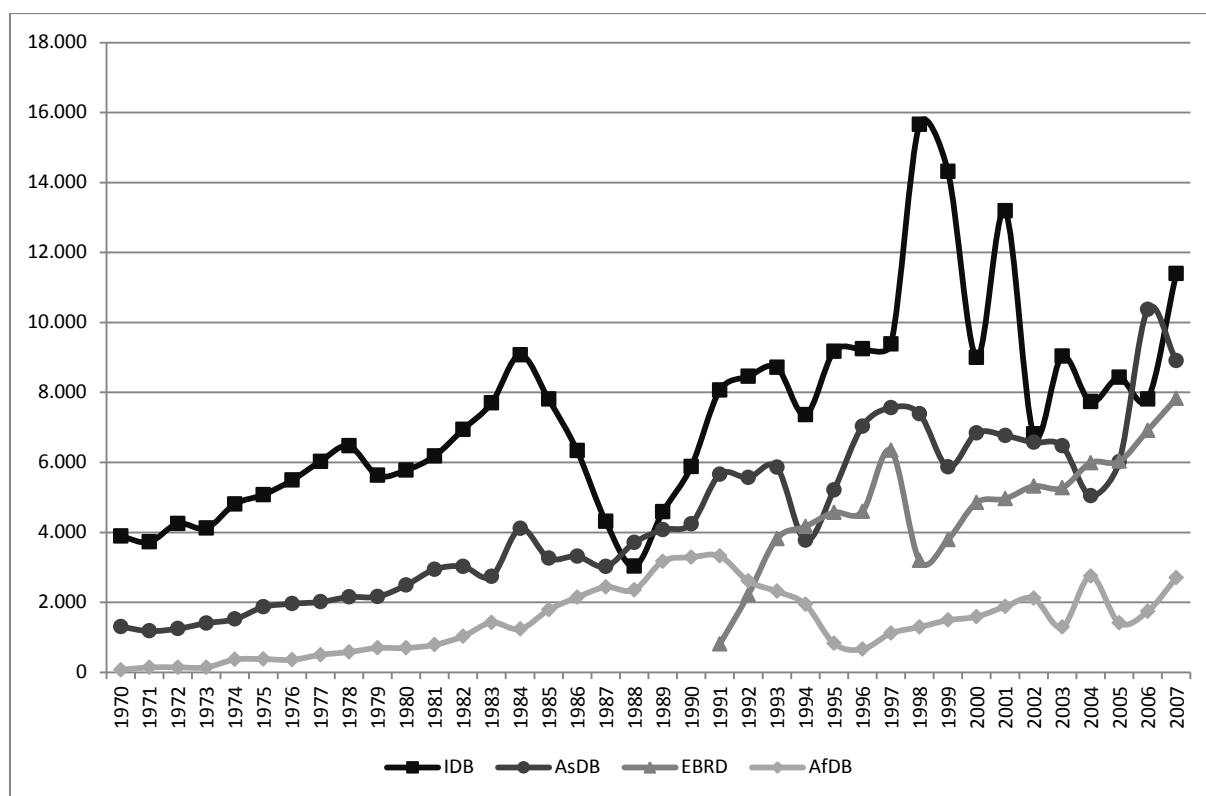
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**Figure 1. IFIs Commitments to LAC region (millions of 2000 US constant Dollars)**



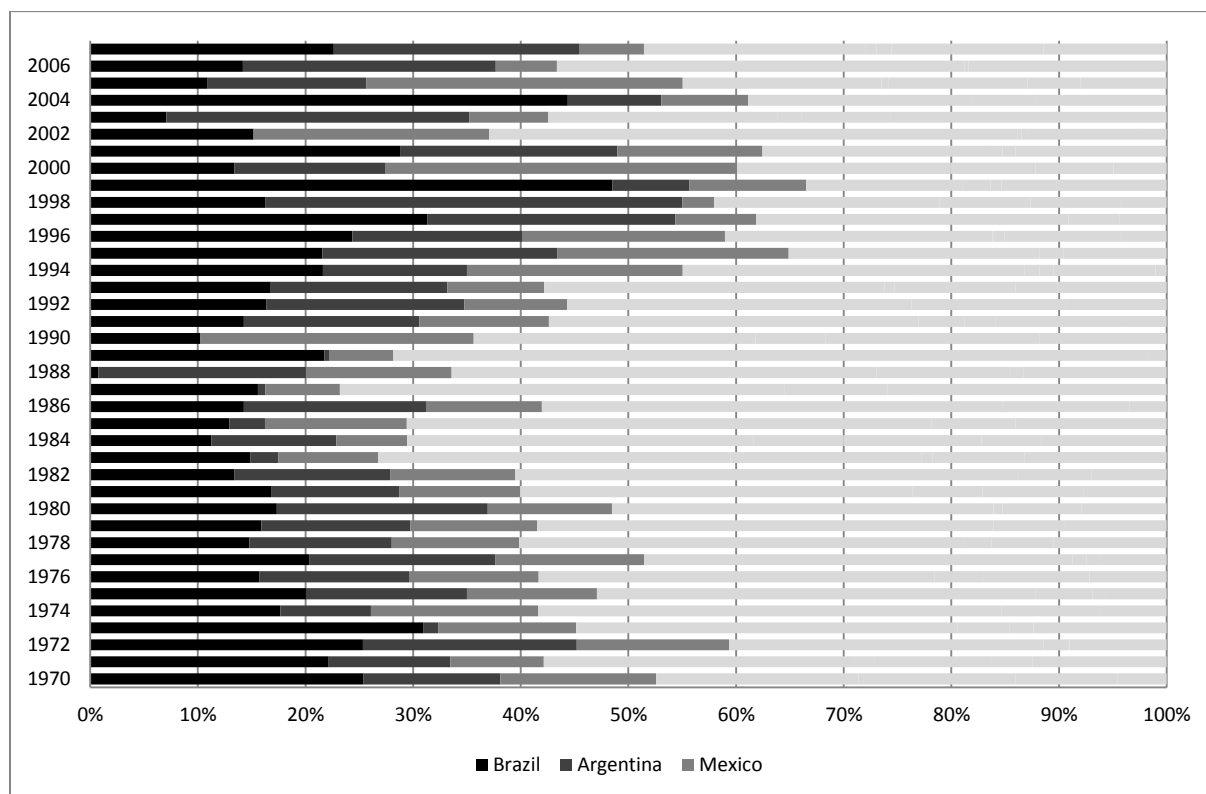
Notes: The graph shows loan commitments approved to countries in the Latin America and Caribbean (LAC) region by the World Bank, Inter-American Development Bank (IDB), Development Bank of Latin America (CAF), US development assistance agencies and the Caribbean Development Bank (CDB) in each year for the period 1970-2007. Figures are given in US constant dollars (base year 2000) and scaled to millions. Source: IDB, OECD.

**Figure 2. RDBs Commitments (millions of 2000 US constant Dollars)**



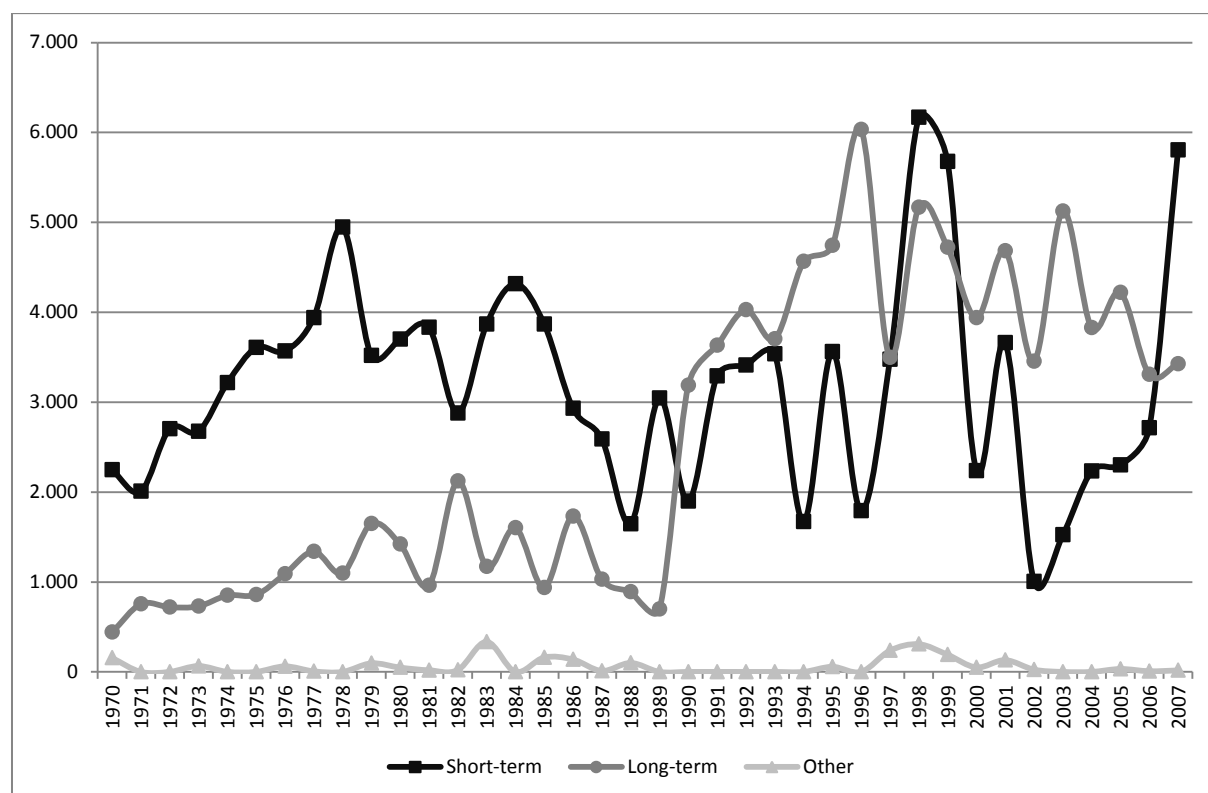
Notes: The graph shows loan commitments approved by the Inter-American Development Bank (IDB), Asian Development Bank (AsDB), European Bank for Reconstruction and Development (EBRD) and African Development Bank (AfDB) in each year for the period 1970-2007. Figures are given in US constant dollars (base year 2000) and scaled to millions. Source: IDB, OECD.

**Figure 3. IDB Commitments by Borrowing Member (share of Total Commitments per year)**



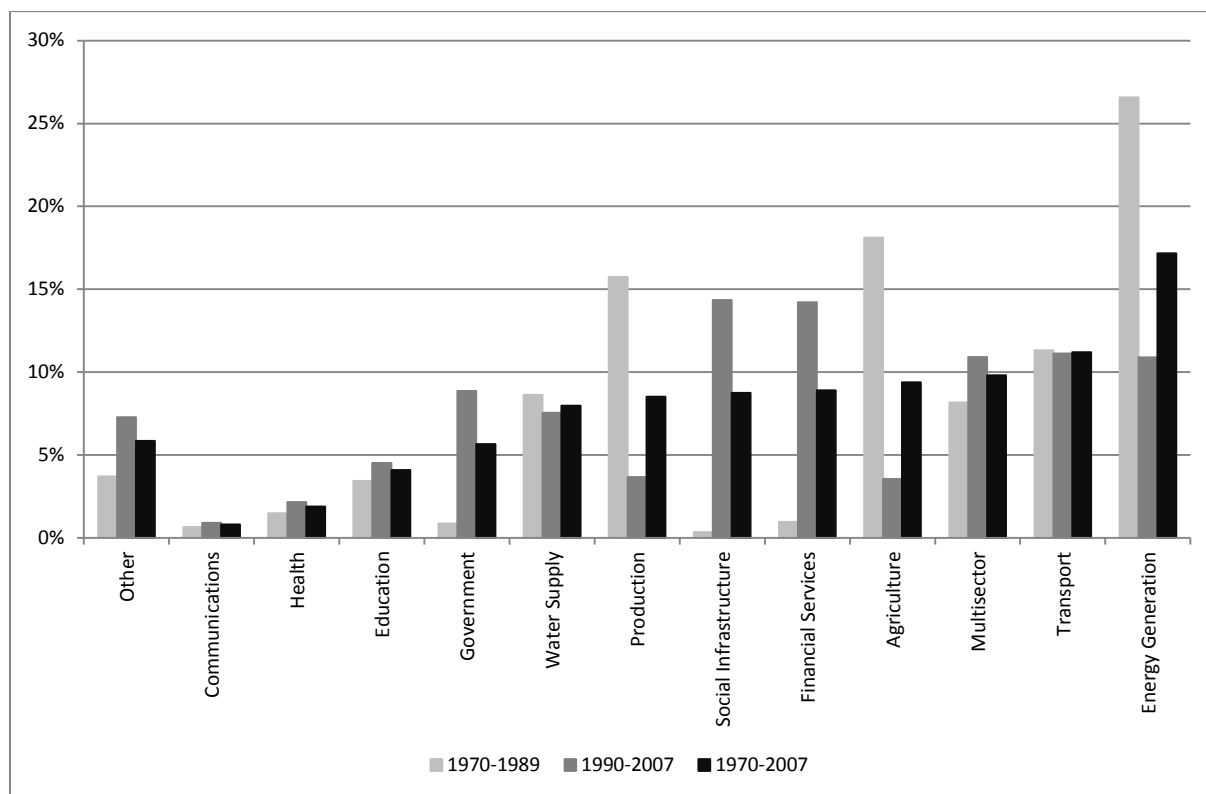
Notes: The graph shows the share received by Brazil, Argentina, Mexico and remaining borrowing countries in loan commitments approved by the Inter-American Development Bank (IDB) in each year for the period 1970-2007. Figures are given in percentage points. Source: IDB, OECD.

**Figure 4. IDB Commitments by Sector Type (millions of 2000 US constant Dollars)**



Notes: The graph shows loan commitments approved by the Inter-American Development Bank (IDB) in short-term impact sectors, long-term impact sectors, and other sectors in each year for the period 1970-2007. Short-term impact sectors comprise transport and storage, communications, energy generation and supply, financial services and businesses, agriculture (agronomy, forestry and fishing) and production (industry, mineral resources and mining, construction and trade); long-term impact sectors comprise education, health and population policies, water supply and sanitation, government, social infrastructure and multisector (women's rights, environment protection and tourism); other sectors comprise commodity aid and emergency assistance. Figures are given in US constant dollars (base year 2000) and scaled to millions. Source: IDB, OECD.

**Figure 5. IDB Commitments by Sector and Period (share of total commitments per period)**



Notes: The graph shows the share of loan commitments approved by the Inter-American Development Bank (IDB) delivered to each sector in the 1970-1989, 1990-2007 and 1970-2007 periods. Figures are given in percentage points. Source: IDB, OECD.

**Table 1. Data Sources and Definitions**

<b>Variable</b>	<b>Description</b>	<b>Source</b>
IDB loan commitments (log)	IDB loan commitments received by a borrowing member in a year in constant dollars.	IDB Annual Report (various years), OECD (2012)
US exports (log)	US exports to a borrowing member in a year in constant dollars.	UN Comtrade (2012)
US UNGA votes	Voting compliance mean with the US in the UNGA by a borrowing member in a year, from 0 (no compliance) to 1 (full compliance).	Strezhnev and Voeten (2012)
US bilateral aid (log)	US bilateral aid received by a borrowing member in a year in constant dollars.	OECD (2012)
UNSC membership (dummy)	Dummy coded 1 if a borrowing member is a non-permanent member of the UNSC in a year, and 0 otherwise.	Dreher et al. (2009b)
Major shareholder exports average (log)	Average of US, Argentina, Brazil and Mexico exports to a borrowing member in a year in constant dollars.	UN Comtrade (2012)
Major shareholder UNGA votes average	Average of voting compliance mean with the US, Argentina, Brazil and Mexico in the UNGA by a borrowing member in a year, from 0 (no compliance) to 1 (full compliance).	Strezhnev and Voeten (2012)
Major shareholder exports coefficient of variation	Coefficient of variation of major shareholder exports average, from 0 (full homogeneity) to 100 (full heterogeneity).	UN Comtrade (2012)
Major shareholder UNGA votes coefficient of variation	Coefficient of variation of major shareholder UNGA voting affinity average, from 0 (full homogeneity) to 100 (full heterogeneity).	Strezhnev and Voeten (2012)
Population (log)	Total population.	World Bank (2012)
GDP per capita (log)	GDP per capita in constant dollars.	World Bank (2012)
Democracy index	Average of political rights and civil liberties indices, from 1 (strongly democratic) to 6 (strongly autocratic).	Freedom House (2012)
Inflation rate (transformed)	Inflation rate as measured by the CPI, transformed by $x/(100+x)$	World Bank (2012)
Government expenditures to GDP	Government expenditures in percentage of GDP.	World Bank (2012)
Current account to GDP	Sum of net exports of goods, services, net income, and net current transfers in percentage of GDP.	World Bank (2012)
GDP per capita growth	Growth rate of GDP per capita.	World Bank (2012)
Investment rate	Investment share in percentage of GDP per capita.	Heston et al. (2006)
International reserves to GDP	International reserves in percentage of total GDP.	World Bank (2012)
International reserves change to GDP	Change in international reserves in percentage of total GDP.	World Bank (2012)
Elections (dummy)	Dummy coded 1 if elections (either presidential or parliamentary) were held in the year, and 0 otherwise.	Beck et al. (2001)
Checks and balances t-1 (log)	Number of checks and balances.	Beck et al. (2001)

**Table 2. Summary Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
IDB loan commitments (log)	943	16.66	5.33	0.00	22.35
US exports (log)	1036	13.17	1.75	3.65	18.65
US UNGA votes	995	0.28	0.12	0.05	0.66
US bilateral aid (log)	1012	13.90	5.94	0.00	20.90
UNSC membership (dummy)	1047	0.08	0.27	0.00	1.00
Major shareholder exports average (log)	1029	11.57	2.23	3.45	17.01
Major shareholder UNGA votes average	875	0.74	0.03	0.62	0.83
Major shareholder exports coefficient of variation	1029	15.97	9.93	1.90	106.48
Major shareholder UNGA votes coefficient of variation	875	36.25	9.18	6.05	53.61
Population (log)	1066	15.34	1.70	11.70	19.09
GDP per capita (log)	1044	7.55	0.94	5.48	10.00
Democracy index	949	2.96	1.47	1.00	7.00
Inflation rate (transformed)	1036	0.15	0.19	-0.33	0.99
Government expenditures to GDP	988	13.35	5.49	2.98	43.48
Current account to GDP	888	-3.86	7.90	-42.89	53.23
GDP per capita growth	1036	1.41	4.62	-28.61	23.37
Investment rate	1040	22.67	9.78	-9.09	86.33
International reserves to GDP	1035	11.15	8.37	0.77	55.95
International reserves change to GDP	897	-0.01	0.04	-0.19	0.29
Elections (dummy)	902	0.20	0.40	0.00	1.00
Checks and balances t-1 (log)	900	1.27	0.41	0.00	2.08

**Table 3. IDB Commitments and US interests, 1970-2007**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Population (log)	-0.953 (3.196)	0.579 (2.887)	1.460 (2.895)	0.425 (2.965)	0.290 (3.006)	0.734 (4.866)	1.408 (4.570)	3.338 (4.853)	1.513 (4.670)	2.461 (4.914)	0.0607 (3.424)	0.683 (3.249)	2.351 (3.444)	0.752 (3.270)	1.567 (3.558)
GDP cap. (log)	<b>-3.670***</b> (1.290)	<b>-3.243**</b> (1.290)	<b>-2.869**</b> (1.233)	<b>-3.257**</b> (1.295)	<b>-3.224***</b> (1.195)	<b>-3.193***</b> (1.132)	<b>-3.048***</b> (1.122)	<b>-2.455**</b> (1.003)	<b>-3.039***</b> (1.113)	<b>-2.611**</b> (1.018)	<b>-3.252**</b> (1.320)	<b>-3.120**</b> (1.316)	<b>-2.657**</b> (1.199)	<b>-3.115**</b> (1.302)	<b>-2.809**</b> (1.217)
Pol. & civil rights	-0.0477 (0.343)	-0.0593 (0.335)	-0.0817 (0.282)	-0.0545 (0.333)	-0.0761 (0.292)	-0.462 (0.350)	-0.460 (0.325)	<b>-0.499*</b> (0.287)	-0.469 (0.336)	<b>-0.478*</b> (0.285)	-0.263 (0.386)	-0.274 (0.376)	-0.283 (0.327)	-0.275 (0.374)	-0.264 (0.333)
Inflation rate	-1.185 (2.189)	<b>-4.176***</b> (1.445)	<b>-3.981**</b> (1.749)	<b>-4.400***</b> (1.656)	-1.280 (2.279)	-1.687 (2.418)	<b>-3.393**</b> (1.688)	-3.021 (1.967)	<b>-3.309*</b> (1.851)	-1.685 (2.346)	-1.538 (1.977)	<b>-3.027**</b> (1.187)	<b>-2.563*</b> (1.555)	<b>-2.898**</b> (1.364)	-1.444 (1.984)
Gov. exp. / GDP						0.0528 (0.0750)	0.0310 (0.0781)	0.0285 (0.0756)	0.0330 (0.0744)	0.0423 (0.0856)					
Current acc. /GDP						<b>0.0785***</b> (0.0257)	<b>0.0829***</b> (0.0265)	<b>0.0726**</b> (0.0335)	<b>0.0821***</b> (0.0270)	<b>0.0709**</b> (0.0316)	<b>0.0558*</b> (0.0333)	<b>0.0587*</b> (0.0342)	0.0530 (0.0367)	<b>0.0584*</b> (0.0343)	0.0524 (0.0356)
GDP cap. growth						<b>0.180**</b> (0.0747)	<b>0.183**</b> (0.0741)	<b>0.168***</b> (0.0631)	<b>0.182**</b> (0.0739)	<b>0.166***</b> (0.0635)	<b>0.174***</b> (0.0661)	<b>0.180***</b> (0.0654)	<b>0.166***</b> (0.0582)	<b>0.179***</b> (0.0644)	<b>0.164***</b> (0.0600)
Investments / GDP						0.0328 (0.0530)	0.0366 (0.0508)	0.0265 (0.0501)	0.0356 (0.0512)	0.0256 (0.0512)					
Int. res. / GDP						<b>-0.170***</b> (0.0578)	<b>-0.167***</b> (0.0583)	<b>-0.159**</b> (0.0639)	<b>-0.167***</b> (0.0577)	<b>-0.162**</b> (0.0640)	<b>-0.166***</b> (0.0535)	<b>-0.164***</b> (0.0541)	<b>-0.159***</b> (0.0581)	<b>-0.164***</b> (0.0537)	<b>-0.160***</b> (0.0580)
Int. res. ch / GDP						-4.206 (8.986)	-3.683 (8.908)	-3.012 (8.807)	-3.536 (9.099)	-3.837 (8.531)					
Elections						-0.429 (0.513)	-0.434 (0.504)	-0.421 (0.513)	-0.445 (0.519)	-0.390 (0.509)					
Checks t-1 (log)						-0.654 (0.577)	-0.602 (0.547)	-0.682 (0.566)	-0.634 (0.568)	-0.650 (0.551)					
US exports (log)	<b>0.979*</b> (0.556)				0.826 (0.520)	0.485 (0.570)				0.439 (0.538)	0.426 (0.510)				0.404 (0.486)
US UNGA votes		3.313 (5.825)			0.667 (5.876)		-1.330 (5.441)			-2.205 (5.759)		-2.077 (5.599)			-3.450 (5.977)
US aid (log)			<b>0.191**</b> (0.0894)		<b>0.178*</b> (0.0934)			<b>0.187*</b> (0.103)		<b>0.188*</b> (0.107)			<b>0.167*</b> (0.0928)		<b>0.171*</b> (0.0969)
UNSC memb.				-0.188 (0.729)	-0.0768 (0.671)				-0.0212 (0.498)	0.158 (0.470)				0.0595 (0.469)	0.204 (0.447)
Constant	47.72 (50.61)	33.77 (47.56)	13.49 (48.42)	36.94 (49.01)	22.90 (48.02)	26.40 (77.08)	21.83 (73.34)	-18.23 (81.02)	19.90 (75.26)	-9.176 (80.18)	39.65 (55.07)	35.15 (53.64)	0.292 (58.16)	33.69 (54.13)	8.551 (58.44)
Country fixed eff.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed eff.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	879	879	879	879	879	758	758	758	758	758	797	797	797	797	797

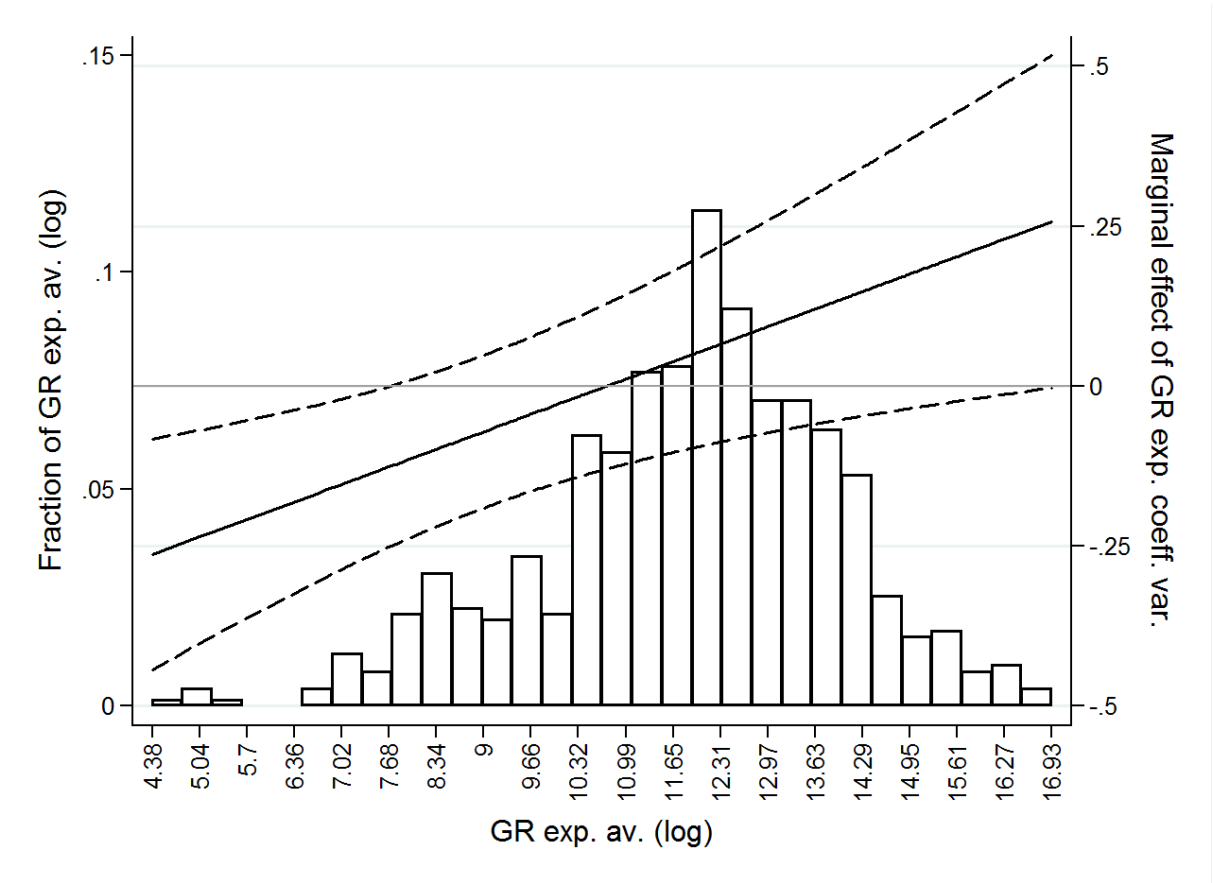
Notes: The dependent variable is the loan commitments in US constant dollars (base year 2000) approved by the Inter-American Development Bank (IDB) to borrowing country *i* in year *t* in logarithmic scale. Standard errors are clustered by country. P-values are in brackets. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

**Table 4. IDB Commitments and Major Shareholder Preference Heterogeneity, 1970-2007**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Population (log)	-0.727 (2.831)	-0.453 (3.123)	0.580 (2.928)	0.802 (2.879)	1.766 (4.302)	5.118 (4.464)	2.080 (4.750)	2.012 (4.633)	0.647 (2.916)	4.071 (3.236)	1.094 (3.165)	1.079 (3.084)
GDP cap. (log)	<b>-3.705***</b> (1.328)	<b>-3.714***</b> (1.354)	<b>-3.314**</b> (1.310)	<b>-3.266**</b> (1.291)	<b>-3.172***</b> (1.108)	<b>-2.589**</b> (1.139)	<b>-3.033***</b> (1.087)	<b>-3.039***</b> (1.080)	<b>-3.241**</b> (1.301)	<b>-2.684**</b> (1.341)	<b>-3.122**</b> (1.278)	<b>-3.131**</b> (1.282)
Pol. & civil rights	-0.0445 (0.332)	-0.0335 (0.331)	-0.0821 (0.301)	-0.0970 (0.293)	-0.430 (0.346)	-0.442 (0.349)	<b>-0.549*</b> (0.301)	<b>-0.547**</b> (0.276)	-0.233 (0.380)	-0.216 (0.378)	-0.338 (0.341)	-0.347 (0.340)
Inflation rate	-0.938 (2.026)	-0.904 (2.179)	<b>-4.377***</b> (1.619)	<b>-4.189***</b> (1.436)	-0.882 (2.385)	-2.291 (2.219)	<b>-3.303*</b> (1.819)	<b>-3.399**</b> (1.648)	-0.358 (1.858)	-2.016 (1.952)	<b>-2.898**</b> (1.336)	<b>-3.025***</b> (1.148)
Gov. exp. / GDP					0.0594 (0.0760)	0.0577 (0.0743)	0.0338 (0.0744)	0.0310 (0.0784)				
Current acc. /GDP					<b>0.0579**</b> (0.0280)	<b>0.0701***</b> (0.0251)	<b>0.0788***</b> (0.0260)	<b>0.0792***</b> (0.0246)	0.0353 (0.0331)	0.0479 (0.0327)	<b>0.0576*</b> (0.0340)	<b>0.0579*</b> (0.0338)
GDP cap. growth					<b>0.165**</b> (0.0687)	<b>0.174**</b> (0.0691)	<b>0.181**</b> (0.0726)	<b>0.180**</b> (0.0713)	<b>0.161***</b> (0.0593)	<b>0.170***</b> (0.0608)	<b>0.177***</b> (0.0635)	<b>0.177***</b> (0.0640)
Investments / GDP					0.0364 (0.0534)	0.0336 (0.0468)	0.0325 (0.0514)	0.0332 (0.0511)				
Int. res. / GDP					<b>-0.187***</b> (0.0553)	<b>-0.196***</b> (0.0531)	<b>-0.167***</b> (0.0575)	<b>-0.167***</b> (0.0578)	<b>-0.178***</b> (0.0503)	<b>-0.182***</b> (0.0496)	<b>-0.162***</b> (0.0526)	<b>-0.161***</b> (0.0527)
Int. res. ch / GDP					-5.431 (9.285)	-6.176 (9.454)	-4.318 (8.907)	-4.466 (8.711)				
Elections					-0.441 (0.517)	-0.341 (0.492)	-0.444 (0.511)	-0.435 (0.496)				
Checks t-1 (log)					-0.675 (0.583)	-0.902 (0.582)	-0.694 (0.547)	-0.644 (0.570)				
GR exp. av. (log)	<b>1.105**</b> (0.530)	1.033 (0.645)			0.798 (0.510)	-0.264 (0.558)			<b>0.851*</b> (0.472)	-0.219 (0.575)		
GR exp. coeff. var.		-0.0680 (0.142)				<b>-0.445**</b> (0.176)				<b>-0.404**</b> (0.172)		
GR exp. av. * coeff. var.		0.00998 (0.0170)				<b>0.0415**</b> (0.0177)				<b>0.0341**</b> (0.0172)		
GR UNGA votes av.			-12.61 (18.53)	3.555 (37.39)			-17.35 (14.95)	-9.789 (49.65)			-18.30 (14.16)	-8.755 (46.87)
GR UNGA votes coeff. var.				0.293 (0.825)				0.196 (0.988)				0.262 (0.878)
GR UNGA votes av * coeff var.				-0.453 (1.132)				-0.240 (1.369)				-0.316 (1.238)
Constant	42.98 (47.09)	38.70 (51.40)	44.04 (47.99)	29.87 (55.02)	4.363 (68.71)	-42.92 (69.83)	23.19 (71.74)	17.75 (77.77)	23.54 (47.05)	-24.65 (51.07)	41.41 (51.76)	33.24 (54.44)
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	874	874	877	877	753	753	756	756	792	792	795	795

Notes: The dependent variable is the loan commitments in US constant dollars (base year 2000) approved by the Inter-American Development Bank (IDB) to borrowing country i in year t in logarithmic scale. Standard errors are clustered by country. P-values are in brackets. \*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1.

Figure 6. Conditional Marginal Effects of Coefficient of Variation of Exports on IDB Commitments (90% CI)



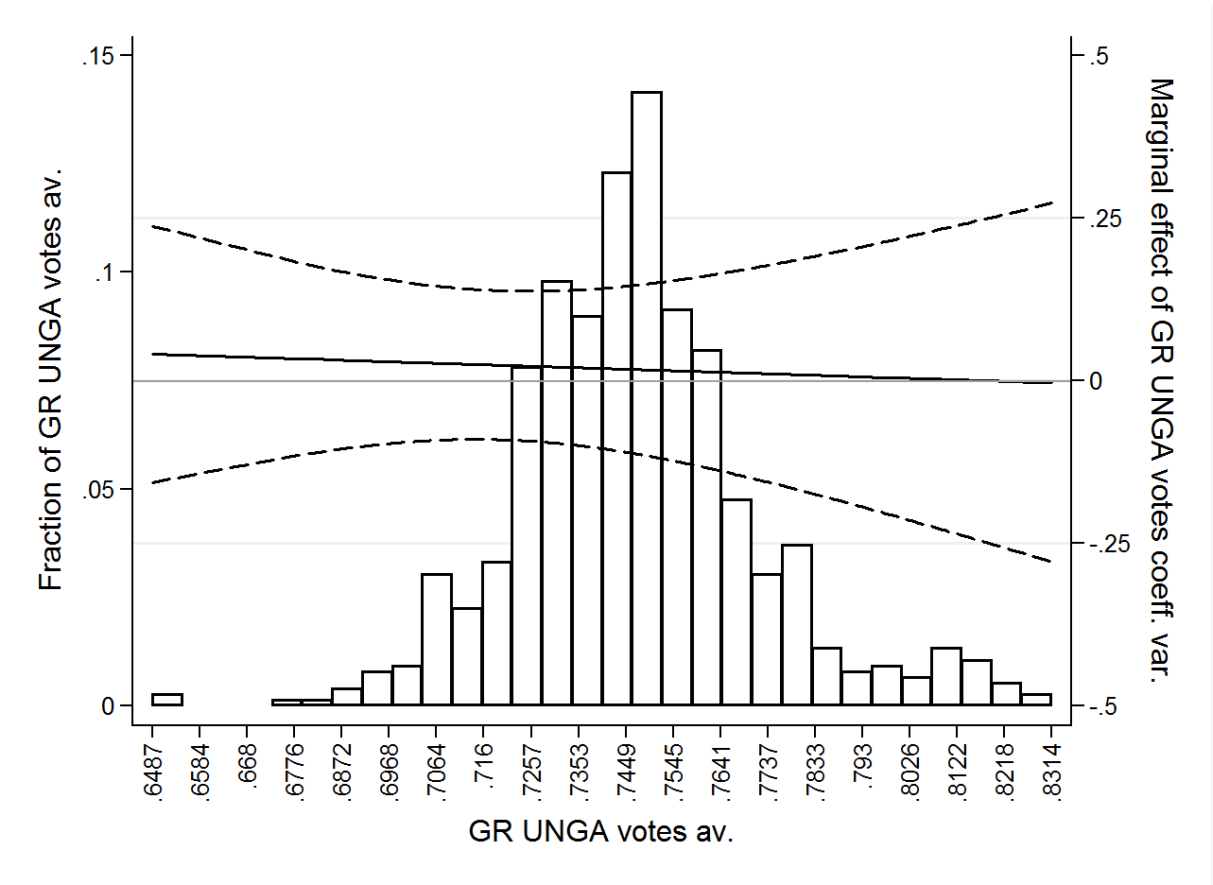
Notes: The graph shows on the right y axis the marginal effects of the major shareholder exports coefficient of variation on IDB loan commitments (log). Marginal effects are conditioned to major shareholder exports average (log). Dashed lines denote upper and lower boundaries of the 90% confidence interval. The graph also shows on the left y-axis the histogram of major shareholder exports average (log).

**Table 5. Predicted Percentage Change of Coefficient of Variation of Exports on IDB Commitments**

Values of GR exp. Av (log)	Predicted % change in Comm	
4.38	-47.35	**
5.04	-42.98	**
5.70	-38.50	**
6.36	-33.88	**
7.02	-29.14	*
7.68	-24.27	*
8.34	-19.26	
9.00	-14.12	
9.66	-8.83	
10.32	-3.39	
10.99	2.20	
11.65	7.94	
12.31	13.84	
12.97	19.91	
13.63	26.14	
14.29	32.55	
14.95	39.14	
15.61	45.90	
16.27	52.86	
16.93	60.01	

Notes: Predicted change from a one standard deviation (*sd*) increase is calculated though  $(e^{me} - 1) * sd * 100$ , *me* denotes for marginal effects.\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

Figure 7. Conditional Marginal Effects of Coefficient of Variation of Votes on IDB Commitments (90% CI)



Notes: The graph shows on the right y-axis the marginal effects of the major shareholder UNGA votes coefficient of variation on IDB loan commitments (log). Marginal effects are conditioned to major shareholder UNGA votes average. Dashed lines denote upper and lower boundaries of the 90% confidence interval. The graph also shows on the left y-axis the histogram of major shareholder UNGA votes average.

**Table 6. Predicted Percentage Change of Coefficient of Variation of Votes on IDB Commitments**

Values of GR UNGA votes av. (log)	Predicted % change in Comm
0.6487	0.1442
0.6584	0.1363
0.6680	0.1283
0.6776	0.1205
0.6872	0.1126
0.6968	0.1047
0.7064	0.0969
0.7160	0.0891
0.7257	0.0814
0.7353	0.0736
0.7449	0.0659
0.7545	0.0582
0.7641	0.0505
0.7737	0.0428
0.7833	0.0352
0.7930	0.0276
0.8026	0.0200
0.8122	0.0125
0.8218	0.0049
0.8314	-0.0026

Notes: Predicted change from a one standard deviation (*sd*) increase is calculated though  $(e^{me} - 1) * sd * 100$ , *me* denotes for marginal effects. \*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1.

**Table 7a. IDB Commitments and US interests by Sector Type, 1970-2007**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Population (log)	-1.648 (4.545)	0.742 (4.143)	1.528 (4.099)	0.221 (4.306)	0.300 (4.137)	2.971 (5.812)	4.830 (5.518)	6.504 (5.547)	4.485 (5.611)	5.390 (5.600)	0.574 (5.041)	1.845 (4.741)	3.701 (4.836)	1.807 (4.808)	2.456 (4.890)
GDP cap. (log)	<b>-3.689**</b> (1.565)	<b>-2.972**</b> (1.487)	<b>-2.589*</b> (1.424)	<b>-3.091**</b> (1.544)	<b>-3.092**</b> (1.409)	<b>-3.257**</b> (1.419)	<b>-2.874**</b> (1.354)	<b>-2.271*</b> (1.262)	<b>-2.933**</b> (1.381)	<b>-2.631**</b> (1.299)	<b>-3.473**</b> (1.609)	<b>-3.133**</b> (1.547)	<b>-2.615*</b> (1.430)	<b>-3.193**</b> (1.571)	<b>-2.966**</b> (1.484)
Pol. & civil rights	-0.213 (0.336)	-0.241 (0.331)	-0.260 (0.272)	-0.219 (0.331)	-0.248 (0.290)	-0.619 (0.415)	<b>-0.659*</b> (0.373)	<b>-0.656*</b> (0.352)	-0.620 (0.399)	<b>-0.645*</b> (0.356)	-0.323 (0.386)	-0.341 (0.369)	-0.352 (0.323)	-0.335 (0.376)	-0.301 (0.341)
Inflation rate	-3.013 (2.692)	<b>-6.593***</b> (2.213)	<b>-6.663***</b> (2.344)	<b>-7.348***</b> (2.479)	-2.512 (2.769)	-2.883 (2.971)	<b>-5.162**</b> (2.307)	<b>-5.040**</b> (2.298)	<b>-5.499**</b> (2.309)	-2.195 (3.027)	-3.153 (2.571)	<b>-5.132**</b> (2.015)	<b>-4.804**</b> (2.028)	<b>-5.334***</b> (2.054)	-2.452 (2.638)
Gov. exp. / GDP						0.0626 (0.0466)	0.0626 (0.0438)	0.0552 (0.0521)	0.0659 (0.0441)	0.0511 (0.0504)	0.0613 (0.0484)	0.0623 (0.0476)	0.0569 (0.0528)	0.0653 (0.0477)	0.0578 (0.0511)
Current acc. /GDP						<b>0.241**</b> (0.0962)	<b>0.244**</b> (0.0971)	<b>0.229***</b> (0.0866)	<b>0.244**</b> (0.0963)	<b>0.223**</b> (0.0875)	<b>0.244***</b> (0.0861)	<b>0.250***</b> (0.0870)	<b>0.238***</b> (0.0798)	<b>0.252***</b> (0.0851)	<b>0.227***</b> (0.0830)
GDP cap. growth						<b>-0.218***</b> (0.0665)	<b>-0.217***</b> (0.0663)	<b>-0.206***</b> (0.0747)	<b>-0.218***</b> (0.0670)	<b>-0.211***</b> (0.0723)	<b>-0.201***</b> (0.0611)	<b>-0.201***</b> (0.0614)	<b>-0.192***</b> (0.0675)	<b>-0.201***</b> (0.0615)	<b>-0.196***</b> (0.0665)
Investments / GDP						0.0163 (0.0925)	-0.00819 (0.103)	-0.0244 (0.0967)	-0.0159 (0.103)	0.0139 (0.0920)					
Int. res. / GDP						0.00313 (0.0506)	0.00357 (0.0480)	-0.000679 (0.0474)	0.00748 (0.0492)	-0.0108 (0.0485)					
Int. res. ch / GDP						-12.71 (11.87)	-11.50 (11.69)	-11.56 (11.72)	-12.86 (11.84)	-11.77 (11.44)					
Elections						-0.231 (0.742)	-0.324 (0.712)	-0.252 (0.730)	-0.266 (0.738)	-0.266 (0.710)					
Checks t-1 (log)						-0.788 (0.859)	-0.935 (0.794)	-0.831 (0.843)	-0.758 (0.835)	-0.990 (0.802)					
US exports (log)	0.403 (0.573)				0.143 (0.585)	-0.259 (0.648)				-0.233 (0.674)	-0.318 (0.603)				-0.300 (0.628)
US exports (log) * Short	0.916 (0.666)				0.992 (0.645)	<b>1.137**</b> (0.560)				<b>1.036*</b> (0.573)	<b>1.099*</b> (0.561)				<b>1.035*</b> (0.568)
US exports (log) * Long	<b>1.392***</b> (0.531)				<b>1.490***</b> (0.480)	<b>1.484***</b> (0.500)				<b>1.529***</b> (0.485)	<b>1.433***</b> (0.510)				<b>1.481***</b> (0.475)
US UNGA votes		2.665 (10.86)			-3.501 (10.01)		-4.884 (11.03)			-7.184 (10.81)		-6.100 (11.56)			-9.597 (11.55)
US UNGA votes * Short		<b>14.10**</b> (6.504)			<b>16.80***</b> (6.307)		11.63 (8.216)			<b>13.11*</b> (7.642)		11.27 (8.189)			<b>13.20*</b> (7.673)
US UNGA votes * Long		9.846 (6.698)			<b>13.55**</b> (6.754)		13.13 (8.225)			<b>15.02*</b> (7.794)		13.57 (8.473)			<b>15.97**</b> (7.977)

**Table 7a (cont). IDB Commitments and US interests by Sector Type, 1970-2007**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
US aid (logs)			0.291 (0.194)		0.315 (0.202)			0.219 (0.222)		0.283 (0.238)			0.197 (0.176)		0.267 (0.192)
US aid (log) * Short			-0.0486 (0.219)		-0.105 (0.225)			0.0289 (0.260)		-0.0332 (0.277)			0.0185 (0.217)		-0.0510 (0.230)
US aid (log) * Long			-0.0201 (0.183)		-0.0982 (0.201)			-0.0321 (0.240)		-0.129 (0.271)			0.00998 (0.186)		-0.0914 (0.214)
UNSC memb.				<b>-5.203*</b> (2.939)	-4.730 (2.958)				<b>-5.238*</b> (2.953)	-4.782 (2.971)				<b>-5.124*</b> (2.994)	-4.764 (3.024)
UNSC memb. * Short				<b>7.278**</b> (3.231)	<b>7.019**</b> (3.223)				<b>7.375**</b> (3.045)	<b>7.244**</b> (3.086)				<b>7.357**</b> (3.042)	<b>7.229**</b> (3.090)
UNSC memb. * Long				4.773 (3.479)	4.099 (3.371)				4.947 (3.378)	4.292 (3.232)				5.070 (3.424)	4.529 (3.293)
Constant	35.75 (76.80)	-0.0291 (70.07)	-21.76 (68.78)	8.924 (73.02)	-0.101 (68.44)	-30.04 (96.67)	-63.30 (93.13)	-101.8 (94.34)	-58.97 (94.25)	-77.31 (93.01)	12.20 (85.61)	-12.07 (81.53)	-53.02 (83.28)	-12.84 (82.86)	-25.12 (82.29)
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,637	2,637	2,637	2,637	2,637	2,274	2,274	2,274	2,274	2,274	2,391	2,391	2,391	2,391	2,391

Notes: The dependent variable is the loan commitments in US constant dollars (base year 2000) approved by the Inter-American Development Bank (IDB) to borrowing country *i* in year *t* delivered to sector *s* in logarithmic scale.

Standard errors are clustered by country. P-values are in brackets. \*\*\* *p* < 0.01, \*\* *p* < 0.05, \* *p* < 0.1.

**Table 7b. IDB Commitments and US interests by Sector Type (marginal effects), 1970-2007**

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
US exports (log)	at Short	<b>1.319*</b> (0.800)				1.135 (0.690)	0.782 (0.641)				0.735 (0.600)	0.877 (0.675)				0.802 (0.651)
	at Long	<b>1.795**</b> (0.764)				<b>1.633**</b> (0.691)	1.115 (0.683)				<b>1.181*</b> (0.620)	<b>1.225*</b> (0.687)				<b>1.295**</b> (0.631)
US UNGA votes	at Short		<b>16.77**</b> (7.523)			<b>13.30*</b> (7.263)		5.174 (7.417)			3.600 (7.727)		6.750 (7.565)			5.921 (7.775)
	at Long		12.51 (8.296)			10.05 (8.186)		7.466 (8.517)			6.377 (9.012)		8.248 (8.906)			7.838 (9.253)
US aid (log)	at Short			<b>0.242*</b> (0.134)		0.210 (0.131)			<b>0.216*</b> (0.130)		0.216 (0.132)			<b>0.248**</b> (0.121)		<b>0.250**</b> (0.125)
	at Long			<b>0.271**</b> (0.129)		<b>0.216*</b> (0.129)			0.207 (0.129)		0.176 (0.137)			0.187 (0.141)		0.154 (0.149)
UNSC memb.	at Short				<b>2.076*</b> (1.195)	<b>2.289*</b> (1.216)				<b>2.233**</b> (1.074)	<b>2.465**</b> (1.183)				<b>2.137**</b> (1.075)	<b>2.463**</b> (1.182)
	at Long				-0.430 (1.396)	-0.632 (1.299)				-0.0544 (1.293)	-0.236 (1.254)				-0.291 (1.282)	-0.489 (1.258)
Matrix C	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Matrix F	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No
Matrix F (robust)	No	No	No	No	No	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations		2,637	2,637	2,637	2,637	2,637	2,391	2,391	2,391	2,391	2,391	2,274	2,274	2,274	2,274	2,274

Notes: Marginal effects reported and only exhibited for the variables of interest. The dependent variable is the loan commitments in US constant dollars (base year 2000) approved by the Inter-American Development Bank (IDB) to borrowing country *i* in year *t* delivered to sector *s* in logarithmic scale. Standard errors are clustered by country. P-values are in brackets. \*\*\* *p* < 0.01, \*\* *p* < 0.05, \* *p* < 0.1.

**Table 8a. IDB Commitments and US interests by Period, 1970-2007**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Population (log)	-1.747 (3.002)	1.220 (3.190)	3.829 (3.466)	0.410 (2.935)	2.117 (3.338)	-0.775 (4.127)	1.488 (4.934)	6.801 (5.584)	1.489 (4.601)	3.516 (4.927)	-1.194 (3.140)	0.985 (3.439)	5.447 (4.132)	0.738 (3.230)	3.087 (3.686)
GDP cap. (log)	<b>-3.886**</b> (1.534)	<b>-3.162**</b> (1.233)	<b>-2.671**</b> (1.112)	<b>-3.247**</b> (1.288)	<b>-3.230**</b> (1.271)	<b>-3.597**</b> (1.403)	<b>-3.039***</b> (1.083)	<b>-1.971**</b> (0.902)	<b>-3.028***</b> (1.103)	<b>-2.672**</b> (1.081)	<b>-3.566**</b> (1.588)	<b>-3.079**</b> (1.275)	<b>-2.283**</b> (1.079)	<b>-3.105**</b> (1.286)	<b>-2.842**</b> (1.259)
Pol. & civil rights	-0.0817 (0.318)	-0.0936 (0.304)	-0.0686 (0.273)	-0.0526 (0.335)	-0.1000 (0.263)	-0.511 (0.320)	<b>-0.465*</b> (0.280)	-0.446 (0.281)	-0.476 (0.323)	<b>-0.440*</b> (0.239)	-0.304 (0.358)	-0.293 (0.340)	-0.247 (0.318)	-0.278 (0.367)	-0.271 (0.289)
Inflation rate	-1.038 (2.185)	<b>-4.167***</b> (1.400)	<b>-4.118**</b> (1.807)	<b>-4.367***</b> (1.672)	-0.841 (2.296)	-1.429 (2.406)	<b>-3.386**</b> (1.713)	<b>-3.220*</b> (1.925)	<b>-3.220*</b> (1.919)	-1.335 (2.479)	-1.216 (2.078)	<b>-3.012**</b> (1.169)	<b>-2.697*</b> (1.601)	<b>-2.845**</b> (1.414)	-0.781 (2.155)
Gov. exp. / GDP						<b>0.0817***</b> (0.0252)	<b>0.0828***</b> (0.0262)	<b>0.0813***</b> (0.0294)	<b>0.0812***</b> (0.0267)	<b>0.0842***</b> (0.0254)	<b>0.0573*</b> (0.0341)	<b>0.0588*</b> (0.0342)	<b>0.0630**</b> (0.0302)	<b>0.0570*</b> (0.0330)	<b>0.0641**</b> (0.0273)
Current acc. /GDP						<b>0.180**</b> (0.0742)	<b>0.183**</b> (0.0739)	<b>0.176***</b> (0.0570)	<b>0.184**</b> (0.0747)	<b>0.175***</b> (0.0570)	<b>0.176***</b> (0.0665)	<b>0.180***</b> (0.0649)	<b>0.168***</b> (0.0534)	<b>0.180***</b> (0.0647)	<b>0.168***</b> (0.0548)
GDP cap. growth						<b>-0.170***</b> (0.0565)	<b>-0.167***</b> (0.0579)	<b>-0.120*</b> (0.0657)	<b>-0.169***</b> (0.0566)	<b>-0.119*</b> (0.0632)	<b>-0.166***</b> (0.0528)	<b>-0.164***</b> (0.0537)	<b>-0.128**</b> (0.0569)	<b>-0.166***</b> (0.0536)	<b>-0.127**</b> (0.0553)
Investments / GDP						0.0424 (0.0786)	0.0314 (0.0765)	0.0255 (0.0786)	0.0338 (0.0739)	0.0258 (0.0895)					
Int. res. / GDP						0.0364 (0.0519)	0.0366 (0.0511)	0.0172 (0.0524)	0.0369 (0.0498)	0.0213 (0.0533)					
Int. res. ch / GDP						-3.816 (9.123)	-3.696 (8.836)	-1.782 (9.185)	-3.212 (9.229)	-2.044 (9.024)					
Elections						-0.447 (0.512)	-0.434 (0.504)	-0.410 (0.501)	-0.448 (0.516)	-0.385 (0.496)					
Checks (logs)						-0.711 (0.584)	-0.601 (0.553)	-0.355 (0.514)	-0.661 (0.576)	-0.353 (0.537)					
US exports (log)	<b>1.192*</b> (0.643)				<b>1.161**</b> (0.569)	0.849 (0.618)				<b>0.994**</b> (0.494)	0.746 (0.630)				<b>0.952*</b> (0.503)
US exports (log) * Cold war	-0.230 (0.374)				-0.188 (0.365)	-0.402 (0.421)				-0.500 (0.373)	-0.324 (0.393)				-0.413 (0.341)
US UNGA votes		-0.665 (6.014)			-2.383 (6.320)		-1.618 (5.305)			-1.617 (5.371)		-3.390 (5.755)			-4.645 (6.084)
US UNGA votes * Cold war		7.620 (9.845)			3.477 (9.275)		0.692 (10.05)			-5.216 (11.08)		3.102 (9.433)			-0.115 (10.29)

**Table 8a (cont). IDB Commitments and US interests by Period, 1970-2007**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
US aid (log)			-0.0329 (0.0641)		-0.0663 (0.0719)			-0.0282 (0.0659)		-0.0425 (0.0722)			-0.0272 (0.0668)		-0.0417 (0.0733)
US aid (log) * Cold war			<b>0.270***</b> (0.0620)		<b>0.287***</b> (0.0635)			<b>0.285***</b> (0.0952)		<b>0.311***</b> (0.0978)			<b>0.248***</b> (0.0788)		<b>0.273***</b> (0.0841)
UNSC memb.				0.223 (0.564)	0.278 (0.560)				0.535 (0.705)	0.463 (0.598)				0.449 (0.666)	0.401 (0.589)
UNSC memb. * Cold war				-0.784 (1.762)	-0.759 (1.490)				-1.286 (1.811)	-0.713 (1.338)				-0.880 (1.787)	-0.473 (1.358)
Constant	60.01 (50.69)	22.74 (52.20)	-24.96 (57.20)	37.08 (48.75)	-9.046 (56.52)	50.38 (67.84)	20.44 (79.40)	-79.22 (93.68)	20.29 (74.28)	-32.71 (84.69)	58.99 (54.07)	29.86 (56.56)	-53.45 (69.29)	33.88 (53.62)	-22.80 (64.12)
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	879	879	879	879	879	758	758	758	758	758	797	797	797	797	797

Notes: The dependent variable is the loan commitments in US constant dollars (base year 2000) approved by the Inter-American Development Bank (IDB) to borrowing country *i* in year *t* in logarithmic scale. Standard errors are clustered by country. P-values are in brackets. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

**Table 8b. IDB Commitments and US interests by Period (marginal effects), 1970-2007**

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
US exports (log)	at Cold war	<b>0.962*</b> (0.566)				<b>0.972**</b> (0.489)	0.446 (0.569)				0.494 (0.539)	0.422 (0.514)				0.538 (0.480)
	at Post war	<b>1.192*</b> (0.643)				<b>1.161**</b> (0.569)	0.849 (0.618)				<b>0.994**</b> (0.494)	0.746 (0.630)				<b>0.952*</b> (0.503)
US UNGA votes	at Cold war		6.955 (8.687)			1.095 (8.342)		-0.926 (9.537)			-6.833 (10.85)		-0.288 (8.986)			-4.760 (9.883)
	at Post war		-0.665 (6.014)			-2.383 (6.320)		-1.618 (5.305)			-1.617 (5.371)		-3.390 (5.755)			-4.645 (6.084)
US aid (log)	at Cold war			<b>0.237**</b> (0.0932)		<b>0.221**</b> (0.0967)		<b>0.256**</b> (0.114)			<b>0.269**</b> (0.114)		<b>0.221**</b> (0.100)			<b>0.232**</b> (0.103)
	at Post war			-0.0329 (0.0641)		-0.0663 (0.0719)		-0.0282 (0.0659)			-0.0425 (0.0722)		-0.0272 (0.0668)			-0.0417 (0.0733)
UNSC memb.	at Cold war				-0.561 (1.484)	-0.481 (1.268)				-0.751 (1.346)	-0.250 (1.069)				-0.431 (1.320)	-0.0723 (1.047)
	at Post war				0.223 (0.564)	0.278 (0.560)				0.535 (0.705)	0.463 (0.598)				0.449 (0.666)	0.401 (0.589)
Matrix C		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Matrix F		No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Matrix F (robust)		No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No
Country fixed effects		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations		879	879	879	879	879	758	758	758	758	758	797	797	797	797	797

Notes: Marginal effects reported and only exhibited for the variables of interest. The dependent variable is the loan commitments in US constant dollars (base year 2000) approved by the Inter-American Development Bank (IDB) to borrowing country *i* in year *t* in logarithmic scale. Standard errors are clustered by country. P-values are in brackets. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .