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UN Security Council Membership and Subnational Favoritism in Aid Recipients*

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Abstract

We test the hypothesis that aid recipient governments are better able to utilize aid flows for political favoritism during periods in which they are of geo-strategic value to major donors. We examine the effect of a country's (non-permanent) membership on the United Nations Security Council (UNSC) on the subnational distribution of World Bank aid. Specifically, we analyze whether World Bank projects are targeted to regions in which the head of state was born, or to regions dominated by the same ethnic group as that of the head of the state. We find that all regions of a recipient country, on average, receive a greater number of aid projects during UNSC membership years. Moreover, a leader's co-ethnic regions (but not birth regions) receive significantly more World Bank projects and loan commitments during UNSC membership years compared to other years. This effect is driven chiefly by interest-bearing loans from the International Bank for Reconstruction and Development (IBRD). Most importantly, we find stronger subnational political bias in aid allocation for aid recipients whose UNSC votes are fully aligned with those of the United States, indicating that exchanges of aid for favors occur in multilateral settings.

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1 Introduction

Two stylized facts regarding the politics of aid are, by now, well-known. First, aid from certain donor governments tends to conform to commercial, political, historical, and cultural affinities between donors and recipients. This strategic use of foreign aid has been widely documented for bilateral aid (e.g., Alesina and Dollar, 2000; Maizels and Nissanke, 1984). Yet, even where aid is channeled through multilateral organizations, donors can manipulate aid allocation—towards some countries and/or away from others. Second, foreign aid allocation within a country is affected by recipients' electoral cycles, and recipient governments will use disbursed funds to increase their chances of survival (Faye and Niehaus, 2012; Jablonski, 2014). More generally, leaders receive political benefits through their ability to direct investments to (and withhold funds from) particular geographic areas within their country (e.g., Dreher et al., 2019; Bommer et al., 2018; Öhler and Nunnenkamp, 2014; Francken et al., 2012; Briggs, 2014).[1]

If these statements are correct, they suggest a relatively unexplored interaction between aid demand and supply, and a type of "two-level" game whereby aid-receiving governments simultaneously negotiate with bilateral and multilateral partners for specific types of commitments, while at the same time bargaining with domestic groups to determine the subnational geographic distribution of disbursed aid. We revisit the evidence of strategic aid allocation at these two levels and offer a novel hypothesis: leaders in aid-receiving governments are more likely to allocate projects subnationally in a way that maximizes political benefit, rather than their country's welfare when they are in a position of strategic

[1]This is by no means limited to aid from traditional donors. Chinese aid, for example, appears susceptible to political "capture" by recipient-country leaders (Dreher et al., 2019).

importance to major donors. Just as donors can gain the allegiance of recipient countries through generous aid provision, recipients benefit not only from the volume of aid received, but from their ability to target those aid-funded resources domestically.

Because we are chiefly concerned with the global, strategic importance of aid recipients to multiple donors, we follow previous analyses of the financial benefits accruing to countries seated as non-permanent, non-veto holding members of the United Nations Security Council (UNSC). As coalition formation is critical to major powers in order to obtain support for their global security priorities, membership in the UNSC affords an opportunity for smaller countries to play an amplified, if temporary, role in global geopolitics (Vreeland and Dreher, 2014). Evidence also suggests that a number of financial benefits accrue to non-permanent UNSC members, including greater amounts of official resource flows and fewer strings attached (Kuziemko and Werker, 2006; Dreher et al., 2009b,a). We thus take advantage of the election of non-permanent members of the UNSC to identify periods of strategic importance.

To examine the subnational allocation of aid spending within receiving countries, we rely on geo-coded data on aid project placements from the largest multilateral agency, the World Bank.[2] This, of course, does not represent the universe of foreign aid; donors likely differ substantially in terms of the role strategic motives play in their aid policies. Multilateral donors such as the World Bank are not immune from such considerations—although they are generally considered to be less influenced by them.

[2]Another donor analyzed in the literature is China. Unfortunately, there is virtually no overlap between Chinese aid disbursement and UNSC temporary membership. Only 14 countries among those who have at some point been UNSC members received any Chinese aid during our observation period, and only one, Vietnam, received Chinese aid while on the UNSC, in 2009. Therefore we cannot in a meaningful way incorporate Chinese aid in our analysis.

We identify subnational regions with a connection to the political executive using two proxies: the political leader's home region, and the region(s) dominated by the members of the leader's ethnic group. Regional or ethnic favoritism by political executives is most obviously tied to electoral as well as personal interests—and more so when region and ethnicity are mutually reinforcing (Ricart-Huguet and Green, 2018). Favoritism in aid allocation based on these factors is likely to create distortions in the effects of aid on recipient-country welfare.

We analyze whether regional aid-favoritism increases during years when the aid receiving country is a non-permanent member of the UNSC, that is, whether the global strategic "salience" of a recipient government increases subnational biases in multilateral aid allocation. To identify causal impact we rely on variation within regions over time, comparing years of UNSC membership with "normal" non-member years. The combined effect of UNSC membership and subnational aid favoritism amounts to a difference-in-differences effect: the difference in aid allocation between politically connected and unconnected regions during UNSC member years relative to the same difference in non-member years.

We find that recipients receive more World Bank projects overall during years in which the country is a UNSC member. We do not find evidence of subnational favoritism towards the birth regions of leaders, whether the recipient sits on the UNSC or not. On the other hand, we find a statistically significant interaction between UNSC membership and co-ethnicity, suggesting that, relative to normal times, co-ethnic regions receive more projects and higher dollar commitments when the countries are UNSC members.

We investigate, additionally, the possibility that UNSC voting affinity with the United States—more than simple membership—facilitates subnational aid favoritism. When

controlling for UNSC voting patterns we find that our initial result is driven by a subset of US-loyal temporary UNSC members, and that for this group the favorable treatment of co-ethnic regions in times of UNSC membership is twice as strong as that of the whole sample of temporary UNSC members.

With some exceptions (e.g. Cruz and Schneider, 2017), the domestic politics of aid recipients has not been extensively explored. We aim to focus in particular on how politically-motivated financial flows influence domestic politics. Our analysis makes three contributions. First, our paper combines insights from the political motivations of both donors and recipients regarding subnational aid allocation. Moving beyond analyses of cross-national aid distribution, we test whether aid recipients are more likely to engage in subnational aid favoritism in times when they acquire salience in a critical international forum. Our findings confirm this hypothesis. Second, we find that, while multilateral donors may be more apolitical than bilateral donors, they too can be influenced by their major shareholders over the allocation of aid to strategically important recipients. This confirms the argument that multilateral donors may sometimes be the preferred channel by which donors intervene in aid allocation to certain recipients in order to retain "clean hands" (Dreher et al., 2018). Third, by exploiting the temporal membership in UNSC we are able to identify cleanly the effects of global strategic salience on regional aid allocation. Correlating subnational aid flows with the political connections of particular regions does not always imply favoritism, given that it is difficult to control for all confounding variables related to subnational need, aid implementation costs, and absorptive capacity that may motivate aid allocation to certain regions. It is unlikely, however, that within-region variation in such factors should co-vary systematically with UNSC membership. While it is certainly possible

that a leader's home or co-ethnic region receives more aid because of need (poverty), if these regions systematically receive greater amounts of aid specifically during UNSC membership years, then we can conclude that favoritism is at work.

The paper is organized as follows. In Section 2 we discuss shortly the literature on strategic aid from both donors' and recipients' perspective. In Section 3 we present the data and the empirical specification, and our results are presented and discussed in Section 4. We conclude in Section 5.

2 The Politics of Foreign Aid

Research on political bias in foreign aid allocation has predominantly focused on the use of foreign aid either as extension of a donor state's geostrategic policy preferences (e.g., McKinlay and Little, 1978; Cingranelli and Pasquarello, 1985; Palmer et al., 2002), or as driven by domestic interest groups within donor countries (e.g., Truman, 1962; Tingley, 2010; Greene and Licht, 2018). A separate literature has also looked at the domestic politics of aid motivation within recipient countries themselves. Analyzing strategic incentives on both sides jointly has surprisingly not been done, even though project aid investments, and allocations, are typically decided in a negotiation between donor and recipient interests, with varying levels of recipient government ownership. For World Bank aid, allocation decisions are nominally taken by recipient governments, but they have to be approved by World Bank leadership and nominated by World Bank team task leaders. As shown in Briggs (2021), certain allocation patterns are less likely to be approved by the leadership or favoured for consideration by the team task leaders due to internal career incentives,

including allocations in favour of political leaders' birth regions. In practice, there are thus several different key actors with influence over investment decisions, both on the donor and the recipient side. The question is what relative power these actors are given over the decisions in normal times versus periods of temporary UNSC membership.

2.1 Donors

Foreign aid partially serves as a foreign policy instrument to further the strategic and commercial interests of donors, although the relative importance of such interests varies across donors and over time. For bilateral aid, donor-country political interests are generally articulated through direct influence over aid appropriations. This is much less obvious in multilateral institutions such as the World Bank, where governments with different political agendas claim ownership and where decisions over aid allocation is the outcome of (explicit or implicit) bargaining (Dreher et al., 2021). Hence, donor-country interests are expected to be less consequential in the distribution of multilateral aid (e.g., Maizels and Nissanke, 1984; Milner and Tingley, 2013). In fact, channeling aid through multilateral institutions is often considered a commitment device to avoid idiosyncratic individual donor preferences and improve aid effectiveness (Dreher et al., 2021). Stricter appraisal policies, a stronger preference for development outcomes, along with the necessary dilution of individual donor interests in multilateral governance, all play a role in limiting the influence of any individual donor.[3]

[3]Dreher et al. (2019), for example, comparing favoritism in allocation between Chinese aid and World Bank aid, argue that strict project appraisal policies, designed to target development outcomes and to prevent personal or domestic political reasons to play a role, explains why they find no diversion of World Bank project aid in contrast to Chinese aid.

Nevertheless, national interests can influence multilateral aid indirectly. Stringent allocation rules can be overruled when a recipient government is of particular strategic or commercial importance to powerful donors. Donors in multilateral settings, for example, have long been known to weaken—or enforce weakly—aid conditionality in recipient countries with whom they share common geo-political goals (Kanbur, 2000). In addition to influencing conditionality, strategically-minded donors have other tools by which they can affect multilateral aid flows to particular recipients. Smaller donors with different foreign policy goals than those of influential donors, for example, may reduce their aid contributions to multilateral organizations (Mavrotas and Villanger, 2006). Donors with larger ownership shares can ally with like-minded donors to form veto-holding coalitions to block aid flows to specific countries. At the same time, coalition-building within governing boards can bias multilateral agency policies towards desired countries, policies, or programs (Schneider and Tobin, 2013).

There is substantial evidence that with non-permanent UNSC membership comes not merely bilateral but multilateral privileges as well. Reward for geostrategic, commercial, or cultural affinities between donors and recipients can be channeled through multilateral institutions. While sitting on the UNSC, for example, member countries—particularly critical allies—tend to receive more UN aid, driven mainly by increased US financial contributions to UN agencies (Kuziemko and Werker, 2006). That this is particularly true during years when important diplomatic events take place suggests that a vote-buying mechanism is in place rather than simply increased general access to the aid resources of major powers. There is also evidence of a positive correlation between non-permanent UNSC membership

and participation in IMF programs which, during membership years, also come with fewer conditions (Dreher et al., 2009b).

Political influence has also been documented in World Bank lending. Aid recipients that vote similarly to the United States in the UN General Assembly on key votes (as defined by the US Department of State) receive more credits through the World Bank's highly-concessional window, the International Development Association (IDA) (Andersen et al., 2006). Non-permanent membership on the UNSC results in an increase in the number of committed World Bank projects (Dreher et al., 2009a), many of which are approved at a lower quality-at-entry threshold.[4]

In addition to UNSC membership, the affinity of UNSC voting patterns to those of major donors matters. In particular, the United States has historically been more willing than other donors to exert its influence over aid flows in multilateral settings in which there is an absence of countervailing pressures from other donors (Kapur, 2002). Several instances of punitive actions taken by the United States against UNSC members abstaining or voting against US-favored resolutions have been documented (Khan, 1994). Indeed, the US government has routinely used bilateral, as well as influence over multilateral, aid to reward UNSC members that are loyal supporters of US interests.[5] In 1991 when a recently-reunified Yemen refused to endorse the UNSC's authorization of use of force against Iraq, US aid to that country was withheld (Kuziemko and Werker, 2006). Similarly, when Zimbabwe failed to support a resolution against Iraq, the country was threatened by the IMF with

[4]For more details on the UNSC and the exchange of aid for political support see, e.g., Vreeland and Dreher (2014).

[5]The multilateral channel is preferred when awarding a loyal supporter that is looked upon less favourably by a domestic US political opinion.

new policy conditions (Dreher et al., 2009b). Countries that vote in accordance with the US position at the UN tend to be rewarded with more loans, while lending is reduced for countries that deviate (Dreher et al., 2018). In other words, besides membership on the UNSC, voting behavior aligned with the United States might entail greater benefits in terms of aid flows.

2.2 Recipients

Official aid can constitute a major source of budgetary revenue, and thus recipient governments will often exploit aid to bolster their chances of political survival (Licht, 2010). As donors make aid determinations based on non-economic factors, so too do leaders in recipient countries use aid to reward supporters and punish opponents (Bueno De Mesquita and Smith, 2007), or simply claim credit for aid-funded public investments (Cruz and Schneider, 2017). This goes to the extant that it has been observed that UNSC members tend to under-perform economically compared to periods when they are not UNSC members and to their non-UNSC counterparts (Bueno de Mesquita and Smith, 2010). The role of political favoritism in aid utilization has been highlighted across aid programs as well as recipient countries. Analyses of aid flows have found significant bias in aid towards the current leader's home region, though more so for aid from the Asian Development Bank, from China's Ministry of Commerce, and from the US Office of Foreign Disaster Assistance (OFDA), than from the World Bank (see, e.g., (Öhler and Nunnenkamp, 2014; Dreher et al., 2019; Bommer et al., 2018)). In addition to helping their home regions political

leaders have also showered aid funds on their co-ethnic groups, in particular in the context of ethnically charged electoral competition (Briggs, 2014; Jablonski, 2014).

3 Data and Methods

Our data consist of 134 aid-recipient countries that have received official development assistance at some point since 1995 across Africa, Asia, Latin America, and Eastern Europe. Within these 134 countries we observe 2,043 subnational provinces, states, governorates, and other subnational administrative units.

3.1 Geo-Referenced Aid

Our foreign aid data contains information on the location of aid projects as well as the total amount committed and disbursed in US dollars to these projects. Project longitude and latitude were obtained from the AidData project at the College of William and Mary. Specifically, we use the data set on the distribution of World Bank aid, version 1.4.2 covering the years 1995-2014. We use World Bank data because previous research, as discussed above, has shown that strategic importance at times matters for World Bank aid allocation, but also because this is the only donor for which there is a sufficiently complete cross-country data set on project placement to make our analysis meaningful (AidData, 2017). We use the information on project location to aggregate the data to the administrative level 1 (ADM1).

A complicating factor is that some projects span across more than one subnational unit, and we have no information on how the resources within a project are allocated

across these regions. When analyzing total committed spending, we therefore assume that resources are evenly distributed across the regions involved. This introduces noise in our data, but we have no reason a priori to believe that resources are unevenly allocated in any systematic way towards certain regions, so this seems like the safest assumption. Still, the results about dollar commitments need to be interpreted with some caution.

3.2 UN Security Council Membership

We rely on information on each country's UN Security Council membership as provided by Dreher et al. (2009b), whose data indicate whether a country is a temporary, non-veto holding member of the UN Security Council during 1951-2019. Between 1995 and 2014, 55 of the 134 countries in our sample sat as temporary members on the UNSC. Only 12 countries were on the Security Council twice or more during that time, with an average tenure of 2.5 years and maximum of 8. The mean number of World Bank projects to these countries during their tenure is 10.3 but the median is 0.

3.3 Heads of State

The Archigos data (Goemans et al., 2009) contains information on the head of state of each country. The latest version 4.1. contains information on the effective leader (i.e. the person actually exercising power) at each point in time for 188 countries between 1888 to 2015. From these data we obtain the names of the relevant leaders and the period during which they were in power. These data were then combined with additional information on the leaders of each country from a variety of sources. From Dreher and Lohmann (2015)

we extracted information on the ethnicity and birth place of 117 African leaders that ruled between 2000 and 2012. Additionally, we have information on a variety of leaders around the world that has been collected by Fearon et al. (2007). For all remaining leaders we compiled information on ethnicity and birth place from a number of other sources that provide leaders' biographies, including *Encyclopedia Britannica* and Wikipedia. Wherever the credibility of such information was unclear, we conducted an additional Google search to confirm the information through additional sources such as newspaper articles, government reports and academic papers. Finally, we cross-checked our finalized data collection with an independent effort conducted by Dreher and Unfried (2020).

3.4 Subnational Ethnicity

To identify the dominant ethnicity in regions across a broad sample of countries, we construct an original measure by matching shapefiles from the GeoEPR 2019 data sets (Geo-referencing Ethnic Power Relations, Vogt et al. (2015)) and the Database of Global Administrative Areas (GADM). From the first data set we get the locations of politically relevant ethnic groups[6] and from the second we get the administrative boundaries. We then create for each region (ADM1) a map with the areas of residence for all of the more important ethnic groups. This gives us the possibility to identify the relative size of the homelands of different ethnic groups in each region. We then create a dummy variable for region-year combinations where the dominant group in the region (i.e. the group occupying the largest share of the regional area) belongs to the same ethnicity as the political executive

[6]These data come from the same source as that used in for instance Alesina et al. (2016) and de Luca et al. (2018), but we match the information on ethnographic regions to the administrative level 1.

of the country.[7] We refer to these observations as a co-ethnic regions. This variable is defined for almost 1,200 regions, across 101 countries in our data set.

3.5 Additional data

In addition to our key variables, we test a couple of auxiliary hypotheses to further strengthen the reliability of our results. First, we identified from the World Bank project web page which projects were financed through the International Development Association (IDA) arm, and which were financed through the International Bank of Reconstruction and Development (IBRD). Funding through these two arms comes under different terms, and with different scope for partner country influence over project details. Secondly, following Dreher et al. (2018), we study the impact of voting patterns within the UNSC, and specify a dummy variable that takes the value of 1 for a temporary UNSC member that voted in line with the US on all proposals at the UNSC during that year, and 0 otherwise.[8] As documented in e.g. Dreher et al. (2009a) and Dreher et al. (2018), there are abundant anecdotes of countries being punished through withheld aid for voting against the US on the UNSC. There is a political value for the US government to show unanimous support for its actions, it is argued, so even if a deviating vote of a temporary member (without veto power) doesn't change whether a resolution is approved or not, the US may choose to punish what they see as a disloyal government.

[7] This is an approximation, relying on the assumption that larger groups population-wise also occupy a larger geographic area. Ideally we would use population shares. However we are not aware of any source of regional population statistics disaggregated by ethnic groups.

[8] We greatly appreciate the authors sharing their data on UNSC voting with us.

3.6 Empirical Specification

To explore our research question, we rely on two sets of empirical models. As an exploratory step, we examine *linear effects*, testing hypotheses related to UNSC membership and subnational bias with geographic controls:

$$A_{ijt} = \beta UNSC_{it} + \gamma_t + \delta_i + [\xi_{ij}] + \epsilon_{ijt} \tag{1}$$

$$A_{ijt} = \beta' ConnectReg_{ijt} + \gamma'_t + \delta'_i + [\xi'_{ij}] + \epsilon'_{ijt} \tag{2}$$

The dependent variable A_{ijt} captures either i) the number of World Bank projects started or (ii) the USD commitments to projects in region j of country i in year t. $UNSC_{it}$ is an indicator for country i being a temporary member of the UNSC in year t; $ConnectReg_{ijt}$ is an indicator of whether subnational area j of country i is politically connected to the country's ruler, according to one of the two proxies defined in Sections 3.3 and 3.4, more specifically: (a) a dummy for the ruler's birth region; or (b) a dummy for regions dominated by co-ethnics of the political leader. Standard errors are cluster-robust at the country level.

Dreher et al. (2009a) show that country characteristics that predict World Bank projects are generally not correlated with predictors of temporary UNSC membership. Nevertheless, all regressions include country- (δ) and year- (γ) fixed effects to account for time-invariant, country-specific variables that may influence the likelihood of receiving World Bank projects as well as yearly variation in total accessible resources for project needs. The inclusion of country-fixed effects, additionally, corrects for the possibility that

country-specific traits—size, GDP, etc.—may be correlated with the likelihood of election to the UNSC (Dreher et al., 2014).

Geographic shocks due to, *inter alia*, deaths from conflict, natural disasters, or climatic shocks may also correlate with the allocation of aid disbursements within countries, including World Bank projects. We therefore also include, in most of our specifications, fixed effects for sub-national regions.[9] An identifying assumption in the model, however, is that the timing and regional location of these shocks are not systematically correlated with the timing of UNSC membership.

As discussed in for instance Kuziemko and Werker (2006), another potential threat to identification of a causal impact of UNSC membership is if temporary membership is caused by an increased recognition of a country's international influence (which may also feed into more aid). Similarly, if membership leads to an increased awareness of country needs, membership may cause more aid flows without this reflecting the notion of trading favors. In both cases the increase in aid should not be a temporary effect, though, associated with only the two years of membership. We therefore also conduct placebo tests in which we create rolling two-year indicators for all time intervals in our data set to contrast the time period of UNSC membership to all other possible contiguous two year combinations, including the years following membership.

In the main part of our analysis we investigate our novel hypothesis of more political bias in the regional allocation of World Bank aid during times of UNSC membership

[9]As we show in Figures A1 to A4 in the Appendix, due to leader turnover, the leader's birth region of a country changes between once every 7 and once every 4 years, while the ethnicity of the leader, and thus the identity of co-ethnic regions, changes less than once every 10 years. This implies that the co-ethnic region indicator changes at least once in most countries over our twenty years period, and the birth region indicator more than that. Therefore, there is enough variation in our $ConnectReg_{ijt}$ indicators for specifications to include region fixed effects.

through a model with *interaction effects* between regional connections and membership in the UNSC.[10] We estimate:

$$A_{ijt} = \alpha UNSC_{it} + \mu ConnectReg_{ijt} + \nu UNSC * ConnectReg_{ijt} + \gamma_t''' + \delta_i''' + [\xi_{ij}'''] + \upsilon_{ijt} \quad (3)$$

If the hypothesis is correct, we would expect the interaction between UNSC membership and regional connections to be positive and statistically significant.

As appropriate to the nature of our dependent variables, we estimate Fixed Effects Poisson models with Pseudo Maximum Likelihood methods (PPML). [11] This estimator has been shown to be valid under very general conditions, and consistent beyond the case of count-type models, including binary, non-negative continuous or discrete response variables (Wooldridge, 1997). This is therefore our preferred specification as it also makes it possible to use the same model for both the number of projects and total commitments.

[10]Notice that the issues pointed out by Ai and Norton (2003) and Greene (2010) about interaction terms in non-linear models do not affect our estimates. The worry that the sign of the interaction might change along the distribution of a continuous variable disappears in the special case of interaction of two dummy variables, where the combination of coefficients actually spans the whole space of potential outcomes.

[11]An alternative is Negative Binomial models in order to relax the assumption on variation imposed by the Poisson distribution (sometimes referred to as *overdispersion*). However, the Poisson model has been shown to be the better option in a fixed-effects panel setting, with the Negative Binomial model being valid only under more restrictive distributional assumptions (Allison, 2009; Guimarães, 2008). Poisson models for panel data have the additional advantage of eliminating what is known as "incidental parameter bias", as incidental parameters for each individual in the panel are conditioned out of the likelihood function (Allison, 2009). So even though estimating an unconditional fixed-effects model we are achieving the same result. Moreover, given that our sample spans 19 years (T=19) the bias in the unconditional estimator should be negligible as shown by simulations in Katz (2001).

4 Results

Starting with the number of World Bank projects allocated to each region, Table 1 reports the linear effect of our variables of interest in terms of incidence rate ratios (IRR) from PPML estimations. For each covariate we alternate country- and subnational area-fixed effects. Looking first at Columns 1 and 2, the interpretation is as follows: during a UNSC membership year, the number of projects to the average region increases by 40%. Turning to aid commitments we find a somewhat weaker impact from temporary UNSC membership. Dreher et al. (2021) argue that commitments adjust more slowly to strategic or political preferences, and thus it is often easier to spread aid flows across a larger number of smaller projects. Yet, once we control for regional fixed effects, the impact is statistically significant, suggesting that commitments increase by 27%.

Within-country specifications also show that leaders' regions of birth receive a greater number of aid projects than other regions (Column 3). The effect disappears, though, when we use subnational region-fixed effects (Column 4), suggesting that subnational confounding factors are important. A similar pattern is seen when examining aid commitments rather than the number of projects.

Columns 5 and 6 show that co-ethnic regions on average receive fewer projects than other regions.[12] Leaders use a wide repertoire of other instruments to benefit co-ethnic groups, particularly through budgetary allocations, off-budget funds, forbearance towards

[12]This is in contrast to two analyses of Kenya in the 1980's and 1990's, which found that the allocation of aid projects to co-ethnic regions increased during electoral cycles. Given the ethnically-contentious nature of Kenyan politics, governments tend to be rewarded for directing public spending and government jobs to ethnic coalitions (Briggs, 2014; Jablonski, 2014). There is, however, little other aid-focused research on the role of co-ethnic regions beyond just Kenya during this time period. Our results suggest that those earlier findings, while true for Kenya during that time period, may not be representative of World Bank aid in general.

taxes and tax arrears, and through public-sector employment. Generally, co-ethnic groups tend to benefit disproportionately from spending on local public goods (e.g. Burgess et al., 2015; Franck and Rainer, 2012; Kramon and Posner, 2016). It may be that World Bank project allocation occasionally serves a compensatory function, whereby in normal times funds are diverted away from co-ethnic regions to counterbalance the stream of benefits that normally accrue to them.

Table 1: UNSC membership and political connections - Linear effects

	UNSC		Birth Region		Co-ethnic Region	
	(1)	(2)	(3)	(4)	(5)	(6)
Number of projects						
	1.398	1.404	1.108	0.893	0.906	0.790
	0.000	0.000	0.025	0.124	0.110	0.001
Groups	128	1963	117	1895	101	1181
N	40080	40080	38424	38415	21531	20126
Commitments						
	1.263	1.272	1.127	0.864	0.882	0.701
	0.159	0.000	0.058	0.159	0.218	0.000
Groups	128	1963	117	1895	101	1181
N	40080	40080	38424	38415	21531	20126
Country FE	*Yes*		*Yes*		*Yes*	
Region FE		*Yes*		*Yes*		*Yes*

The table reports Incidence Rate Ratios from FE Poisson regressions. The dependent variable in the first panel is the number of World Bank projects started in each region and year, and in the second panel the share of USD commitments to those projects when equally shared across locations. All regressions include year fixed effects. Standard errors are cluster-robust at the country level. P-values under the coefficients. DiffP-values refer to the differences between the two panels above.

In Table 2 we interact UNSC membership with our measures of subnational connection to the leader. We limit our specifications to those with subnational fixed effects as the previous results suggested that subnational time-invariant factors seem to bias estimates upward. As with Table 1, the average region receives more projects and more commitments during UNSC member years. This is particularly true for leaders' co-ethnic regions: the

interaction between UNSC and co-ethnic region is statistically significant and the estimated IRR is greater than one. No similar interaction effect is found with regards to leaders' birth regions.[13]

These results indicate that the negative relationship between co-ethnic regions and World Bank aid in "normal" years disappears in years of UNSC membership. Subnational areas dominated by a population that is co-ethnic with the current ruler receive 74% of the number of World Bank projects relative to ordinary regions in non-UNSC years. When the country becomes a member of the UNSC, however, these same areas receive 26% more projects than they receive in non-UNSC years on top of the 32% more projects that all regions receive on average during those UNSC years, thus making up for the gap. A similar patterns is seen in commitments, but with an even bigger compensatory effect of 55%.

Table 2: UNSC membership and political connections - Interaction effects

	(1)	(2)	(3)	(4)
	Projects		**Committments**	
UNSC	1.407	1.325	1.275	1.160
	0.000	0.000	0.000	0.004
BirthRegion	0.927		0.938	
	0.276		0.527	
CoethnicRegion		0.741		0.652
		0.000		0.000
UNSCInteraction	0.890	1.266	0.713	1.548
	0.515	0.035	0.160	0.025
Regions	1933	1207	1933	1207
N	38415	20126	38415	20126

The table reports Incidence Rate Ratios from FE Poisson regressions. The dependent variable is the number of World Bank projects and the equal share committments in each region and year. All regressions include region and year fixed effects. Standard errors are cluster-robust at the country level. P-values under the coefficients.

[13]This differential effect is consistent with the finding in Briggs (2021) that aid projects to leaders' birth regions are less likely to be approved by World Bank leadership, while no such effect is apparent for co-ethnic regions.

To summarize, we find that: (i) recipients receive more World Bank projects and larger overall commitments when they are temporary members of the UNSC, confirming previous findings with more recent data; (ii) subnational allocation of World Bank projects within countries is not biased towards leaders' birth or co-ethnic regions in non-UNSC years, on the contrary, co-ethic regions receive somewhat less aid; and (iii) during years of UNSC membership, co-ethnic subnational areas receive more projects and larger commitments relative to non-member years. In other words, recipient governments obtain more World Bank aid during their non-permanent UNSC membership, and more resources flow to a leader's co-ethnic areas during those years. Appendix A shows that the dynamics of turnover in co-ethnic regions are remarkably similar across continents and regime type, so these results do not appear to be driven by a particular set of countries.

4.1 Sensitivity analysis

As mentioned previously, it is possible that temporary UNSC membership increases aid flows not for strategic reasons, but simply because the needs of a partner country become better known to donors who are also sitting on the UNSC. If the change in aid flows is due to greater donors' awareness of recipients' needs, rather than as an exchange of aid for votes, then any increase in aid should persist once the country leaves the UNSC. To test whether the effects we observe are transitory, we subject our main results to a simple placebo test. We re-run our benchmark regressions from Tables 1 and 2 starting a two-year "placebo UNSC membership" in each of the five years before and five years after the country's actual UNSC membership term, yielding 11 separate estimates. The

coefficients and 95% confidence intervals of these estimates are shown in Figures 1 and 2. The first figure shows the linear effect of UNSC membership, while the second figure shows the interaction effect between UNSC membership and co-ethnic region. In the first figure, the effect is never significant except in year zero, namely, during actual UNSC membership years. The interaction effect is significantly negative 4 and 5 years before membership, but positive only during actual membership and not afterwards.

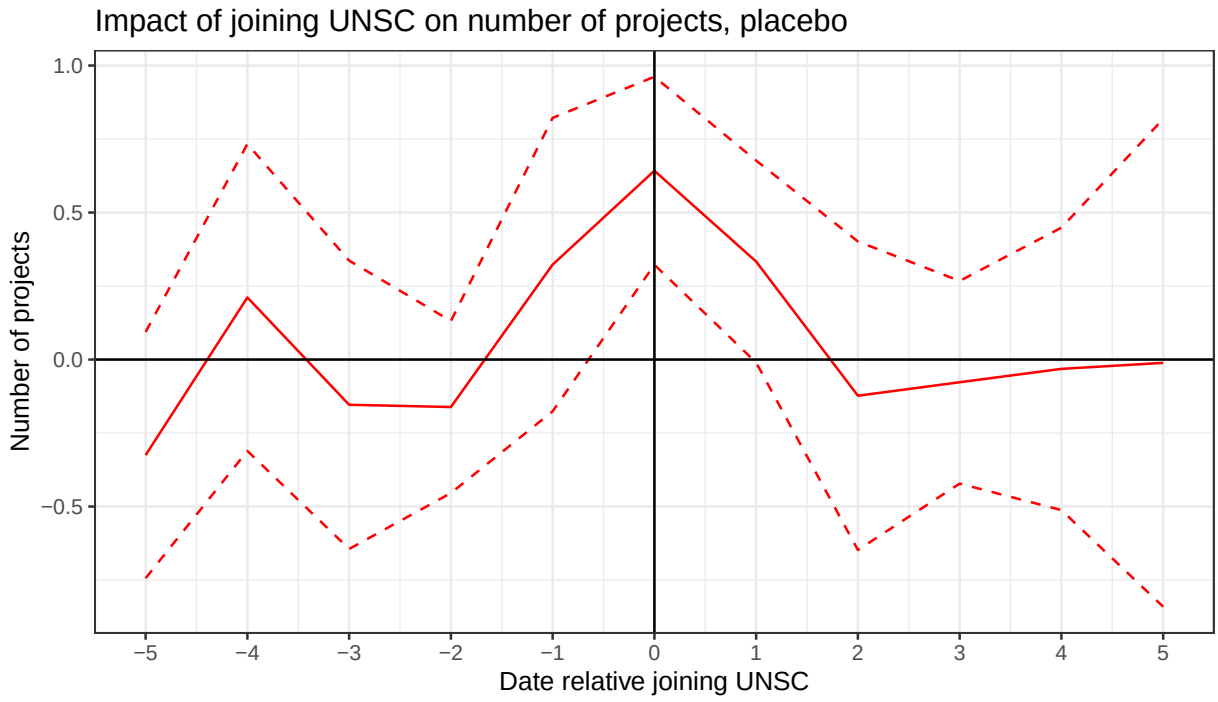

Figure 1: Impact of UNSC membership on number of projects, placebo

In Table 3 we separate projects financed through the International Development Association (IDA) from those financed through the International Bank for Reconstruction and Development (IBRD). Concessional IDA credits are allocated through a formula-based mechanism based on income levels (creditworthiness) and performance in economic management and are thus subject to less funding discretion relative to the IBRD (World Bank, 2020). Our results confirm greater favoritism in the use of IBRD lending. The UNSC

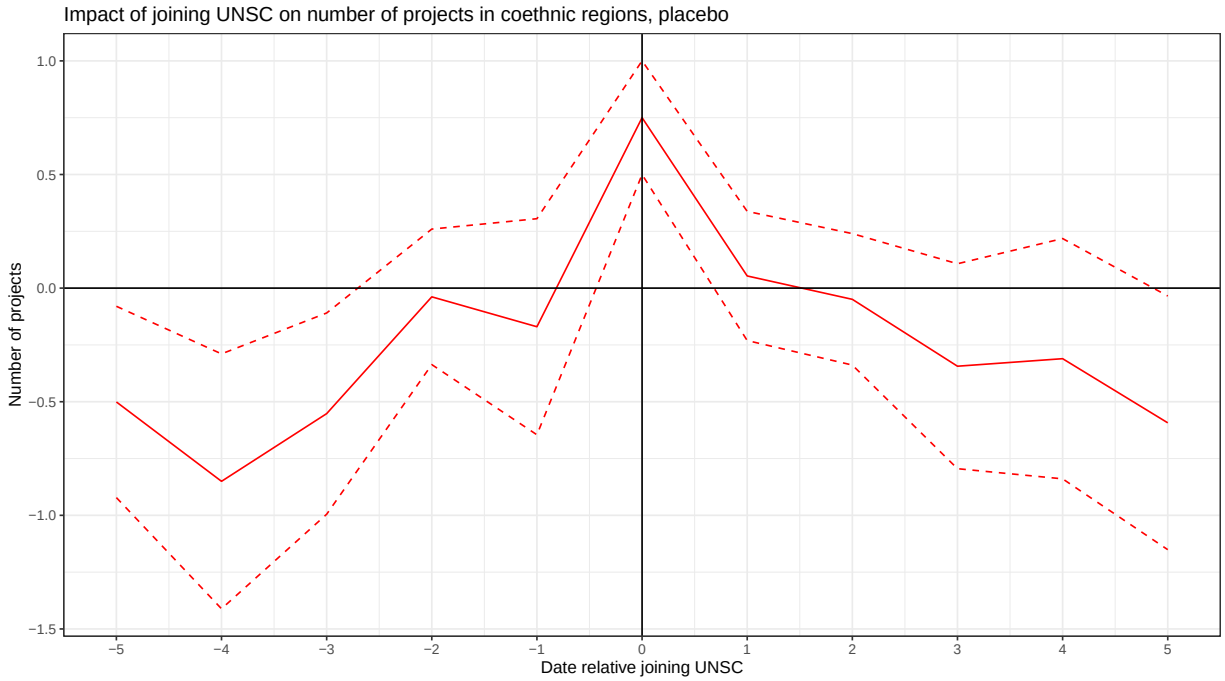

Figure 2: Impact of UNSC membership on number of projects in coethnic regions, placebo test

dummy is significant and greater than one in all specifications, but the UNSC*co-ethnicity interaction is only significant in the IBRD sub-sample.[14] The estimated IRR in the IDA sub-sample exceeds unity only slightly and is insignificant for both number of projects and dollar commitments. This suggests that our previous results are driven by loans through the IBRD, an intuitive result in light of the different practices of the two World Bank lending arms.

Table 4 examines the effect of affinity to the United States on aid allocation, that is, whether our main result is primarily driven by US allies. We create a dummy variable that takes the value of 1 if a country voted with the US on all UNSC resolutions during that year, 0 otherwise. Even a single vote by a non-permanent UNSC member in any given

[14]In Dreher et al. (2009a) the impact of UNSC membership becomes marginally insignificant in both sub-samples when they separate between IDA and IBRD lending. In our extended data set, statistical significance is thus stronger, as would be expected.

Table 3: IDA vs IBRD

	Birth Region		Co-ethnic Region		Birth Region		Co-ethnic Region	
	N	USD	N	USD	N	USD	N	USD
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	IDA				**IBRD**			
UNSC	1.344	1.478	1.365	1.382	1.563	1.198	1.369	1.135
	0.000	0.000	0.000	0.000	0.000	0.002	0.000	0.105
BirthRegion	0.911	0.906			0.966	0.936		
	0.250	0.350			0.795	0.683		
CoethnicRegion			0.921	0.815			0.156	0.150
			0.268	0.030			0.001	0.002
UNSCInteraction	0.942	0.822	1.010	1.167	0.837	0.731	1.602	1.654
	0.785	0.453	0.944	0.373	0.387	0.214	0.061	0.261
Regions	1044	1044	700	700	1085	1085	569	569
N	21306	21306	13217	13217	22026	22026	8600	8600

The table reports Incidence Rate Ratios from FE Poisson regressions. The dependent variable is number of and USD commitments to projects started in each region and year. All regressions include region and year fixed effects. Standard errors are cluster-robust at the country level. p-values under the coefficients.

year that diverges from the US position is commonly interpreted as a clear signal of dissent (Dreher et al., 2018). Table A1 in the Appendix reports the full list of these countries. Our previous results are driven by a subset of countries that consistently vote with the United States. The UNSC*co-ethnic region interaction in Columns 3 and 4 captures the impact in countries that have voted at least once against the US position while on the UNSC. This interaction term is now much smaller and not statistically significant. The difference to countries always voting in line with the US is given by the triple interaction term (*RegXAllAgreement*). For both number of projects and total commitments, estimated IRRs are well above one and statistically significant, indicating that the spike in World Bank projects and funds accruing to co-ethnic regions during UNSC membership is concentrated among countries voting in full agreement with the US position on the UNSC.

Table 4: Voting alignment

	(1) Projects	(2) Committments	(3) Projects	(4) Committments
UNSC	1.407	1.275	1.324	1.160
	0.000	0.000	0.000	0.004
BirthRegion	0.927	0.938		
	0.276	0.527		
CoethnicRegion			0.744	0.657
			0.000	0.000
UNSCInteraction	0.822	0.721	1.051	1.170
	0.311	0.190	0.708	0.425
RegXAllAgreement	1.314	0.957	1.832	2.134
	0.393	0.919	0.000	0.000
Regions	1932	1932	1199	1199
N	38406	38406	20094	20094

The table reports Incidence Rate Ratios from FE Poisson regressions. The dependent variable is number of and USD commitments to projects started in each region and year. All regressions include region and year fixed effects. Standard errors are cluster-robust at the country level. P-values under the coefficients.

In the appendix we show that there is a positive correlation between co-ethnicity and subnational wealth as measured by levels of nightlight luminosity. This could put our interpretation of the results into question if richer regions receive relatively more projects in times of plentiful aid (e.g., during the UNSC years). Co-ethnic regions could receive more projects and commitments not because of preferential treatment of co-ethnics, but simply as a consequence of co-ethnic regions' relatively higher income levels. To rule out such concerns, we test a specification which includes two interactions with the UNSC dummy in the same specification: our co-ethnicity dummy and a "rich region" dummy. We classify subnational regions based on levels of nighttime luminosity, aggregated to the ADM1 level from high-resolution satellite imagery. To avoid endogeneity problems due to the potential impact of aid on nighttime luminosity, we use nightlight data from the start

year of our time series, 1995.[15] Within each country we divide subnational areas at the median level of luminosity, and code all those above this cutoff as *Rich*. In Table 5 we replicate our main results adding the competing *UNSC*Rich* interaction. The co-ethnicity interaction remains significant and of comparable size to Table 2, while the *UNSC*Rich* interaction is insignificant, suggesting that the initial results are not driven by co-ethnic regions happening to be rich (or poor, for that matter), but by the fact that they are treated favorably due to their co-ethnicity with the leader.

Table 5: Local income (1995 nighttime lights)

	(1)	(2)	(3)	(4)
	Projects		**Committments**	
	Birth Region	Coethnic Region	Birth Region	Coethnic Region
UNSC	1.480	1.405	1.317	1.135
	0.000	0.000	0.000	0.060
ConnectedRegion	0.897	0.693	0.899	0.625
	0.125	0.000	0.315	0.000
UNSCInteraction	0.948	1.293	0.762	1.579
	0.762	0.023	0.266	0.024
UNSCXRich	0.923	0.912	0.948	1.041
	0.138	0.188	0.505	0.627
Regions	1771	1152	1771	1152
N	35215	19128	35215	19128

The table reports Incidence Rate Ratios from FE Poisson regressions. The dependent variable is the number of World Bank projects and the equal share committments in each region and year. All regressions include region and year FE. Standard errors cluster-robust at the country level. P-values under the coefficients.

Finally, on the assumption that ethnicity and aid allocation differ across world regions (Öhler and Nunnenkamp, 2014; Dreher et al., 2019) we split our sample between Sub-Saharan Africa and the rest of the world. Among Sub-Saharan African countries, ethnicity plays a unique role as a motivator of political behavior (Eifert et al., 2010).

[15]We have also tested using the average levels over the whole time period and it yields very similar results.

Virtually every African conflict or instance of protracted instability has had some ethno-regional dimension to it (Deng, 1997; Posner, 2007). More importantly, the norm of rotating UNSC membership is perhaps the strongest among Sub-Saharan African states (Vreeland and Dreher, 2014), suggesting that UNSC selection may be more exogenous in this region. Despite the smaller sample sizes, our sub-sample results are indistinguishable from each other, and similar to our full-sample results (see Appendix D for further details).

5 Conclusion

A substantial body of evidence documents strong geo-strategic and domestic political motives in the allocation and distribution of foreign aid; those motives—by which aid principally serves the commercial and political interests of donor and recipient country governments rather than the needs of citizens in recipient countries—has a detrimental effect on developmental effectiveness. While this is often the case for bilateral aid, multilateral development banks are not immune to the maneuverings of their shareholders. We combine insights of political considerations of both donors and recipients to test whether recipient country governments are better able to engage in political favoritism distributing multilateral aid during times when they are strategically important to major donors. For that purpose, we analyze the impact of a recipient's non-permanent membership in the United Nations Security Council (UNSC) on the subnational allocation of World Bank aid projects.

Confirming other research, we find that recipient country regions on average receive more World Bank projects when the country is a member of the UNSC. Looking at leaders'

birth regions, we find no support for any preferential treatment of these regions either in normal times or in years of UNSC membership. This is partly driven by bias from region-specific and time-invariant characteristics causing a correlation between funding and birth regions that disappears once region-fixed effects are incorporated.

Turning to co-ethnicity, we find no evidence of favoritism in World Bank project placement in normal times. Indeed, the opposite is the case: funding appears biased against a leader's co-ethnic region. As knowledge of ethic favoritism in public goods and service provision, and health and educational outcomes is widespread, it is possible that World Bank projects are allocated to compensate for any perceived ethno-linguistic favoritism. During UNSC membership years, however, co-ethnic regions receive significantly more projects and larger investment amounts. These effects are driven by IBRD lending, as would be expected given that IDA fund allocation is more formalized and restricted. Most importantly, when differentiating between countries that always vote with the United States while on the UNSC and those that don't, we find that the effect is driven by the former. The abilty of an aid recipient to direct funds towards politically-favored subnational regions is thus a function of that country's relations with major donors, suggestive evidence of an exchange of strategic support for greater discretion over the allocation of aid funding. Through its influence over World Bank practices, the United States and other major donors plausibly enhance the ability of allied, loyal recipient governments to allocate projects and funds to ethnically connected regions.

Politically biased allocation of aid also matters for economic development (e.g., Burnside and Dollar, 2000; Alesina and Dollar, 2000). It is therefore not surprising, in the light of our findings, that the effect of aid on growth has been found to be smaller

when a country is a member of the UNSC (Dreher et al., 2018). These distortions in aid allocation are thus a cause for concern, as they reduce the impact of aid programs on poverty alleviation and economic growth.

The Sustainable Development Goals stake out an ambitious agenda of global development to 2030. To make progress towards these goals, substantial investments in low and middle income countries are needed. These investments need to come from many sources, including from domestic resource mobilization, private foreign investment, and official development assistance. It is not merely the size of the flows that will matter, but also the extent to which they can effectively alleviate constraints preventing countries from reaching their goals. This is particularly true for foreign aid, that needs to fill some of the widest gaps between required and available funding in the poorest and most fragile settings. Where official foreign aid is captured, or used for domestic patronage, its ability to contribute to the economic development and welfare of recipients will be limited.

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Appendix

A Leader turnover

In the figures below we plot the frequency of regional turnover in our sample for birth region and co-ethnic region. In Figures A1 and A2 we separate between the African and the non-African subsamples, in Figures A3 and A4 we distinguish between democracies and non-democracies (defined as country-years with Polity IV scores below 7, the median in our sample).

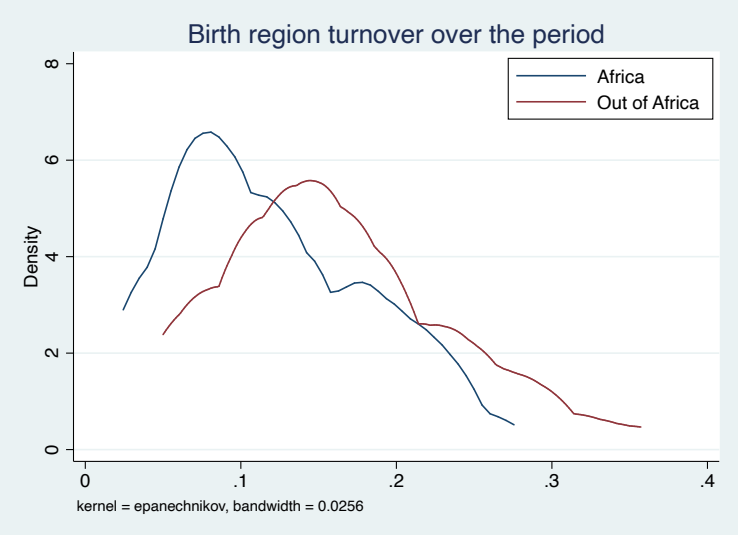

Figure A1: Share of years with a change in birth region

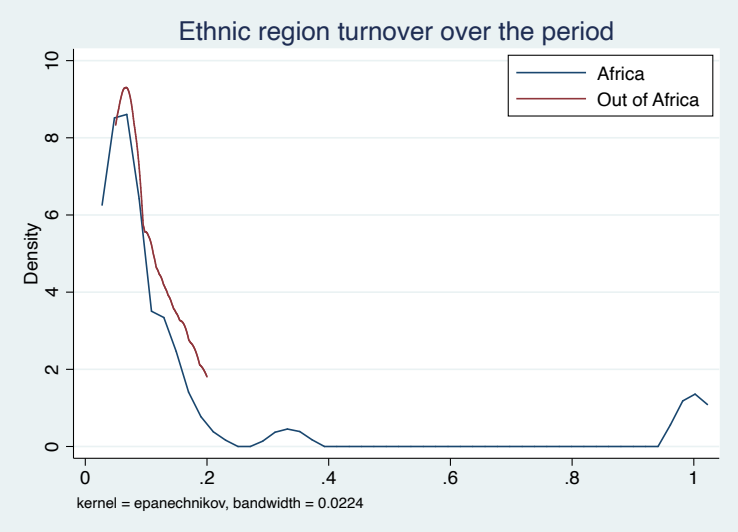

Figure A2: Share of years with a change in coethnic region

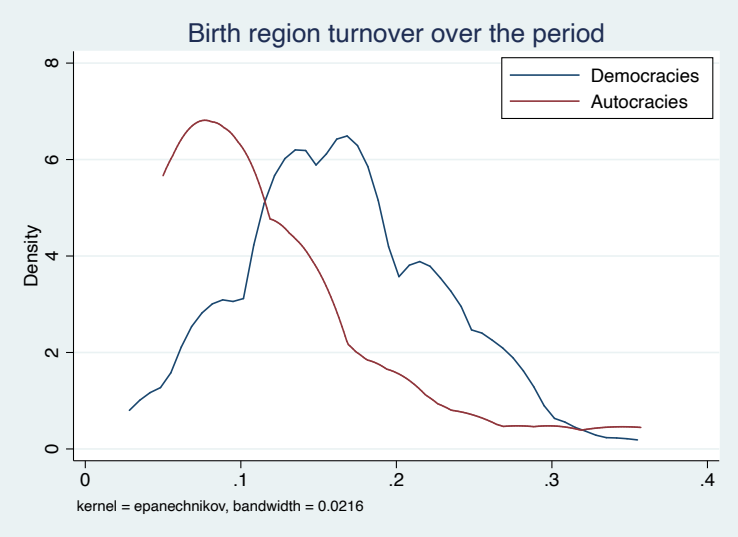

Figure A3: Share of years with a change in birth region

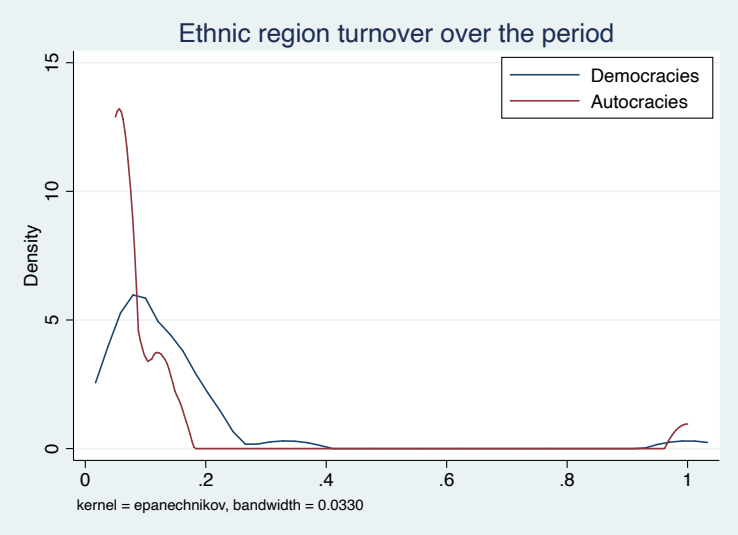

Figure A4: Share of years with a change in coethnic region

The identity of a country's leader's birth region changes less frequently in Africa and, not surprisingly, in less democratic countries. The dynamics of co-ethnic regions are, however, remarkably similar across geography and regime type.

B Voting patterns

As shown in Table 4, our results are driven by the set of countries that, while on the UNSC, always vote in alignment with the US. The table below lists all of these countries together with their weight in our sample, in terms of number of observations.

Table A1: Countries voting always in alignment with the US

Country	Freq.	Percent	Cum.
Argentina	60	13.89	13.89
Bosnia and Herzegovina	3	0.69	14.58
Brazil	54	12.50	27.08
Chad	17	3.94	31.02
Chile	15	3.47	34.49
Costa Rica	7	1.62	36.11
Gabon	27	6.25	42.36
Gambia	12	2.78	45.14
Ghana	10	2.31	47.45
India	34	7.87	55.32
Kenya	46	10.65	65.97
Morocco	28	6.48	72.45
Nigeria	74	17.13	89.58
Peru	26	6.02	95.60
Rwanda	6	1.39	96.99
Togo	10	2.31	99.31
Uganda	3	0.69	100.00

C Connected regions and local income

Figure A5 below shows that being a leader's birth region is strongly correlated with being a relatively high income region, as measured by 1995 nighttime lights. Figure A6 shows that co-ethnic regions are also more likely to have higher than median income (relative to lower than median income), but the difference in this case is smaller, although still statistically significant.

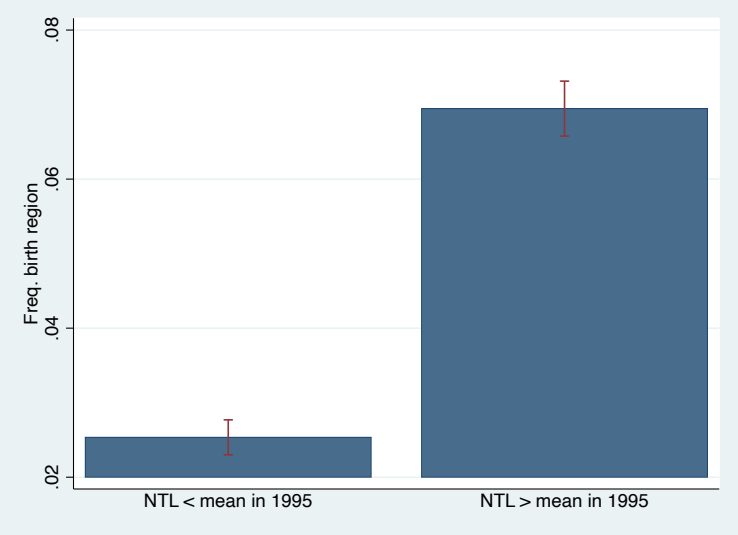

Figure A5: Local income in leaders' birth regions

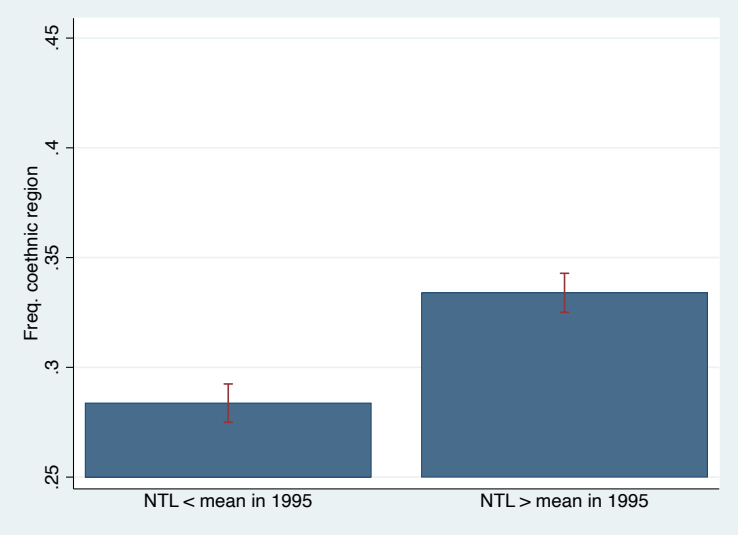

Figure A6: Local income in coethnic regions

D Geographic heterogeneity

Table A2 below replicates Table 2 splitting the sample into African countries vs the remaining sample. While not significant in the smaller sub-samples, coefficients are similar in size to Table 2. $DiffP-val$ shows that coefficients are not significantly different across the two sub-samples either.

Table A2: UNSC membership in coethnic regions - Africa subsample

	(1) Projects	(2) Commitments	(3) Projects	(4) Commitments
	Africa		**Outside Africa**	
UNSC	1.287	1.767	1.481	1.240
	[0.000]	[0.000]	[0.000]	[0.001]
CoethnicRegion	0.938	0.912	0.675	0.591
	[0.495]	[0.504]	[0.000]	[0.000]
UNSCInteraction	1.204	1.126	1.207	1.055
	[0.182]	[0.407]	[0.388]	[0.893]
DiffP-val	0.351	0.543		
Regions	451	451	736	736
N	9135	9135	11002	11002

The table reports Incidence Rate Ratios from FE Poisson regressions. The dependent variable is the number of and USD commitments to projects started in each region and year. All regressions include region and year fixed effects. Standard errors are cluster-robust at the country level. P-values under the coefficients. P-values at the bottom of columns (1) and (2) refer to the differences from columns (3) and (4).

Table A3 shows the results from a specification similar to the one in Table 1 but where we again distinguish between the sample of African countries and the remaining subsample. Results are reported with country (Columns 1 and 3) and regional (Columns 2 and 4) fixed effects respectively. Birth region has a positive impact outside of Africa, as noted in previous literature. However this effect disappears when controlling for region fixed effects.

Table A3: Geographic heterogeneity in main effects

	(1)	(2)	(3)	(4)
	Africa		**Outside Africa**	
Number of projects				
UNSC	1.346	1.345	1.497	1.508
	0.115	0.000	0.000	0.000
BirthRegion	1.052	0.839	1.175	0.956
	0.509	0.143	0.015	0.596
Groups	46	562	71	1341
N	11594	11594	26830	26821
Committments				
UNSC	1.600	1.588	1.308	1.322
	0.003	0.000	0.189	0.000
BirthRegion	1.031	0.794	1.259	0.998
	0.809	0.206	0.007	0.986
Groups	46	562	71	1341
N	11594	11594	26830	26821
Country FE	*Yes*		*Yes*	
Region FE		*Yes*		*Yes*

The table reports Incidence Rate Ratios from FE Poisson regressions. The dependent variable is number of and USD commitments to projects started in each region and year. All regressions include region and year fixed effects. Standard errors are cluster-robust at the country level. P-values under the coefficients.