# Development Aid and International Politics: Does membership on the UN Security Council influence World Bank decisions?

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**Abstract**

We investigate whether temporary members of the UN Security Council receive favorable treatment from the World Bank, using panel data for 157 countries over the period 1970-2004. Our results indicate a robust positive relationship between temporary UN Security Council membership and the number of World Bank projects a country receives, even after accounting for economic and political factors, as well as regional and country effects. The size of World Bank loans, however, is not affected by UN Security Council membership.

**Keywords: World Bank, UN Security Council, Voting, Aid**

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## 1. Introduction

Founded in the aftermath of the Great Depression and World War II, the World Bank was created to help rebuild war torn Europe. In the years following its inception, the focus of the World Bank gradually shifted to developing countries. Today it is the primary international institution responsible for promoting economic development in the world. Sponsoring projects of various scopes in both emerging market countries as well as the world's poorest countries, in 2006 alone the World Bank provided $23.6 billion in loans and grants through 279 projects around the globe. Critics (e.g. Easterly 2005) allege that the World Bank has fallen far short of its goals of improving living standards and reducing poverty. Many argue that failure is due to the imposition of misguided policy conditions through the development projects.

One possible reason for this is that instead of enforcing sound development policies, the World Bank has been used as a tool of foreign policy to funnel money to corrupt governments in strategic positions who ally themselves with the major shareholders of the World Bank – the United States, Japan, Germany, France, and the United Kingdom. The World Bank itself freely admits that during the Cold War its lending was politically driven.[1] With only a few notable exceptions, researchers have not systematically investigated this claim.

Do international political imperatives guide the so-called development lending of the World Bank? Anecdotes are plentiful, but only Schneider et al. (1985), Frey and Schneider (1986) and, more recently, Andersen et al. (2006) and Dreher and Sturm (2006) put this question to a large-n test. They use clever proxies to capture the importance of developing countries to the major shareholders of the World Bank, such as the quantity of exports from major shareholders to developing countries, their former colonial status, and voting patterns at the United Nations General Assembly.[2] These studies present some evidence that political imperatives do influence the Bank.

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[1] http://web.worldbank.org/WBSITE/EXTERNAL/EXTSITETOOLS/0,,contentMDK:20264002~menuPK:534379~pagePK:98400~piPK:98424~theSitePK:95474,00.html (accessed June 14, 2007).

[2] Voting patterns in the UN General Assembly are also used to investigate the politics involved in bilateral aid (Ball and Johnson, 1996; Boschini and Olofsgard, 2007; Alesina and Weder, 2002; and Fleck and

In this paper, we offer the first systematic study analyzing a straightforward measure of the international importance of a country rather than a proxy: temporary membership on the United Nations Security Council (UNSC).

Recent evidence indicates the importance of temporary UNSC members to the G7. Kuziemko and Werker (2006) find that US foreign aid increases when countries serve on the UNSC, as does UN Development Program aid, and Dreher et al. (2007) find that the ten temporary members of the UNSC are more likely to receive IMF assistance than other countries. They attribute these increases in various forms of foreign aid to vote trading activities: temporary members can trade their Security Council votes for cash.

There is reason to believe that foreign aid is not only given to help countries in economic distress but also to achieve the donor's political objectives. In fact, since the late 1940s every US administration considered foreign aid to be important in achieving foreign policy goals (Ruttan 1996). It has even been claimed that the primary purpose of US economic assistance is in promoting overall US policy objectives (Zimmerman 1993). According to Morgenthau (1962: 302), "the transfer of money and services from one government to another performs here the function of a price paid for political services rendered or to be rendered."

Our question is whether World Bank lending is used by the institutions' major shareholders for a similar purpose. While nearly all countries in the world are members of the World Bank and all have votes, these votes are pegged to economic size, and the G7 has an inordinate amount of power at the Bank as a result. They control well over 40 percent of the votes. When they coordinate their votes, they have veto power over certain important decisions that require supermajorities. Alone they constitute a near majority, and need the support of only a handful of allies to guarantee control of the Bank's loans and grants to developing countries. Clearly they control the World Bank. Do they use this control purely to help developing countries in need or do international politics also play a role in how they choose to guide the development institution?

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Kilby, 2006). Kilby (2006) employs UN voting patterns in his analysis of donor influence on the Asian Development Bank.

To anticipate our results, we find that temporary Security Council membership does increase the number of World Bank projects a country receives. The qualitative results are robust to the inclusion of economic and political factors, as well as regional, country, and year specific effects.

We proceed as follows. The next section provides some background on the UNSC and the World Bank and develops our hypothesis. Section 3 presents anecdotal evidence while the fourth presents rigorous analysis of large-n data. We discuss extensions in section five. The final section concludes.

## 2. The Argument

The Security Council is the primary organ of the United Nations with responsibility for the maintenance of international peace and security. Its duties include taking military action against aggressors and investigating disputes or situations likely to lead to international frictions. The Security Council has the power to make binding resolutions and may adopt legally binding measures in order to maintain or restore international peace – including the use of armed forces.

Ten of the fifteen seats on the UN Security Council are held by temporary members, while five members – China, France, Russia, the United Kingdom, and the United States – serve on a permanent basis. Each year, five temporary members are elected for a two-year term. They are nominated by their regional caucus and have to be approved by at least two thirds of the votes in the General Assembly. Since 1966, the composition of the 10 temporary members has been: 3 from Africa, 2 from Latin America and the Caribbean, 2 from Asia, 1 from Eastern Europe, and 2 advanced industrial countries.[3] The elections are usually held about three months before the term starts on January 1.

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[3] Note that for the five combined seats for Africa and Asia, one country must come from the Middle East. Before 1966, there were only six elected members of the UNSC. Composition was typically: two from Latin America, one from the Middle East, one from Eastern Europe, and two advanced industrial. For more, see Dreher and Vreeland (2007) and Russett (1997).

Each member of the UNSC has one vote. Decisions on substantive matters require a majority of nine votes. The permanent members have veto powers. Thus, for any given matter, the votes of four out of the ten temporary members are required, in addition to all five votes of the permanent members. All votes are by open ballot.

According to Kuziemko and Werker (2006), there is extensive competition for the temporary seats on the Security Council as countries might expect to receive net rewards during their tenure. Kuziemko and Werker (2006) find, for example, that average US aid increases by 54 percent and average UN development aid by 7 percent when a country is elected to the Security Council. Another benefit of serving on the Council is the likelihood of receiving greater support from the IMF (Dreher et al., 2007) and, potentially, the World Bank also.

Why would the US seek to influence the temporary members of the UNSC? There are several reasons that the US may care about how the UNSC as a body votes. As discussed above, the body has jurisdiction over such important UN matters as military action and sanctions. Pursuing its global interests unilaterally outside international institutions can impose substantial costs on the US. For example, when acting through the UNSC, the US bears a smaller share of military burdens and needs fewer soldiers as compared to unilateral actions (Sandler and Hartley, 1999).

Yet, less than half of the votes of the ten elected members are required for UNSC measures to pass. Of the nine out of fifteen votes required, five must come from the permanent members with veto power and only four from the elected members. Elected members are rarely pivotal. O'Neill (1996) shows, for example, that the cumulative voting power (using the Shapley-Shubik index) of all ten elected members of the UNSC is less than two percent. Nevertheless, the US may seek out the support of UNSC members as insurance votes. It is well established in the vote-buying literature that over-sized coalitions tend to be established (see, e.g., Volden and Carrubba, 2004).

Besides seeking a coalition of countries to ensure the passage of resolutions, the US and other important countries may seek the support of the UNSC for reasons of legitimacy. In the absence of UNSC legitimacy, domestic public support might be more

difficult to achieve and US Congress might also be recalcitrant (Voeten 2001).[4] The view that the UNSC matters mostly for reasons of legitimacy is consistent with the observation that there is a premium for getting (near) unanimous votes (see, e.g., Doyle, 2001: 223).

For example, it is well known that the US threatened Yemen with dire consequences (which materialized) if it did not vote in favor for resolution 678, on the use of armed forces against Iraq in 1990, even though Yemen's vote was in no way pivotal (e.g. Pilgar, 2002). As another example, consider the run up to the recent war in Iraq where President Bush was going to take the vote to the UNSC even though he knew the French were going to veto. He was lobbying some of the non-permanent members with aid packages in an attempt to win a simple majority in the Council (Eldar, 2004). This makes no sense in terms of the UNSC's institutional rules, but it might have provided some legitimacy to the war for the US and international audience. The legitimacy view of the UNSC is also consistent with Kuziemko and Werker's (2006) claim that the impact of UNSC membership on foreign aid holds even when the outcome of the vote is obvious a priori.[5]

To the extent that the US and other powerful countries care about how elected members of the UNSC vote, they may be willing to use other means beyond direct foreign aid to influence them. Because of their power at the World Bank, the G7 can use the Bank to influence recipient countries' behavior in line with their interests.

The World Bank consists of two institutions, the International Bank for Reconstruction and Development (IBRD), which lends to middle income countries, and the International Development Association (IDA), which lends to the world's poorest countries.[6] A World Bank "project" is supposed to provide a loan to developing countries

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[4] Voeten (2001) provides examples. He cites the memoirs of James Baker (1995: 278), emphasizing domestic support to be the main reason for the US government to seek a multilateral solution to the Gulf War. He also cites Malone (1998: ix), arguing that it was easier for the Clinton administration to secure support of the UNSC as compared to those of the US Congress.

[5] In contrast to arguments about legitimacy, Fang (2006) argues that leaders seek approval by the UNSC to (falsely) signal their type to voters. She argues that under certain conditions, sincere and insincere leaders regarding their foreign policy intentions may both bring actions before the UNSC.

[6] The World Bank Group refers to the IBRD, the IDA, as well as three other organizations: the International Finance Corporation (IFC), which encourages private sector investment in coordination with

to improve standards of living and reduce poverty. Projects may be small or large in scope; goals may be long run or short run. So that the loan does not end up subsidizing bad policies or corrupt governments, the Bank typically *conditions* its loans on policy changes and economic reforms that the government must undertake. One condition (for the Bank's structural adjustment lending) is often that a loan with its sister institution – the IMF – be in good standing, which means that the government may be practicing fiscal austerity and tight monetary policy, undertaking structural reforms, and perhaps devaluing the national currency. In addition to these conditions, the World Bank has also stressed good governance and anti-corruption in recent years. The Bank does not provide all of its lending associated with its projects upfront. Continued disbursements of the loan are supposed to depend on compliance with the agreed upon policy conditions – an arrangement that has come to be known as "conditionality."

Despite the guidelines on how World Bank lending is supposed to work, there is some evidence that the Bank has been used for political purposes. The World Bank candidly acknowledges on its website, "It is true that during the Cold War years aid was politically motivated."[7] The Bank officially denies that lending continues to be politically motivated, and there is evidence in favor of this claim. Dreher and Sturm (2006), for example, show that World Bank (and IMF) lending influences voting in the UN General Assembly until the end of the Cold War. While countries voting more frequently in line with the average G7 country received larger loans from the Bank until 1990, this pattern does not hold for the years 1991-2002.

The benefits for the G7 of bribing or rewarding other governments indirectly via the Bank instead of directly with their own aid programs might be substantial. It has been argued that national governments delegate unpleasant tasks they consider necessary to gain the support of interest groups to international organizations ("dirty work"). This

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the IBRD; the Multilateral Investment Guarantee Agency (MIGA), which facilitates foreign direct investment in developing countries by providing insurance, mediating disputes, advising governments, and providing information; and the International Centre for Settlement of Investment Disputes (ICSID), which facilitates the conciliation and arbitration of investment disputes between members and nationals of other countries.

[7]http://web.worldbank.org/WBSITE/EXTERNAL/EXTSITETOOLS/0,,contentMDK:20264002~menuPK:534379~pagePK:98400~piPK:98424~theSitePK:95474,00.html (accessed June 14, 2007).

might allow governments to escape the nationalist resentment those actions would create when imposing more direct pressure (Vaubel 1986, 1991, 1996). According to Eldar (2004), votes are almost always traded behind the scenes, because most countries prefer to conceal vote trading arrangements to escape public and political condemnation. International Financial Institutions can impose punishments or rewards much wider in scope than any single donor could (Harrigan et al. 2006), and the World Bank frequently works in concert with its sister institution, the IMF. Loans extended through international organizations are usually much more valuable to potential borrowers than they are costly for the US (Eldar 2004). Western countries might thus try to influence the Bank to reinforce the already existing bilateral pressure.

We thus hypothesize: **UN Security Council membership increases the probability of receiving World Bank projects.**

## 3. Anecdotal Evidence

Examples of G7 countries manipulating International Financial Institutions to achieve foreign policy goals abound. Eldar (2004) provides anecdotal evidence of how the US has used its influence at the World Bank to influence the voting behavior of China on the UNSC. As one example, the US promised to support China's World Bank loan request in exchange for support of a resolution regarding deployment of armed forces in Iraq in the Security Council in 1991. Eldar (2004) also discusses the 1994 UNSC resolution on the restoration of democracy in Haiti. The US helped China to obtain World Bank loans (and gave China security guarantees regarding Taiwan), eventually leading to China's abstention from the vote.

Turning to examples of *elected* members of the UNSC, consider the following examples from around the world. In Latin America, Argentina had no new World Bank projects in 1970, but two new projects were initiated in 1971, when Argentina joined the UNSC. Later, Argentina had two new World Bank projects in 1985, and it did not belong to the UNSC. It was elected to the UNSC in the fall of 1986, however, and the number of new World Bank projects doubled that year. Four projects started during the first year of its term on the UNSC in 1987, and then the number of new projects jumped to seven in

1988 while Argentina continued to serve. The number of projects then dropped down to one in 1989, but peaked again in 1995 – coincidently, Argentina had again been elected to the UNSC and was serving the second year of its term.

Turning to Africa, consider Ghana, which on average received two new World Bank projects per year from 1970 to 1985, with the highest number of new projects being five one year. Then Ghana was elected to serve on the UNSC in 1986-7. The number of new Bank projects jumped up to six in 1986 and nine in 1987. As another Cold War example, consider Zaire. From 1970 to 1981, Zaire received between one and three new projects each year. In 1982 and 1983 the country served on the UNSC, and the number of new projects went up to five and four, respectively. And Algeria received an average of less than two new World Bank projects per year from 1970 to 1987. In 1988, however, Algeria served on the UNSC, and the number of new projects went from three to six. There were four new projects in 1989, during the second year of the term. Yet, there was no similar bump up for Algeria when it served again after the Cold War had ended. When Algeria served on the UNSC in 2004, not one new project started.

We see the pattern exists throughout Asia as well. As large country, India always has a lot of Bank projects in place. From 1970 to 2004, the average number of new projects was ten – when it is not serving on the UNSC. During the eight years during this period when it was serving on the UNSC, however, the average number of new projects was fourteen. Indonesia, another large country, received eight new projects in 1970, four in 1971, and seven in 1972. When it served on the UNSC in 1973, it nevertheless received a bump up in the number of new projects: eleven. Following the UNSC term, the number of new projects remained high, averaging ten new projects per year from 1975 to 1994. However, the record number of new projects in Indonesia is eighteen, which was also reached while it was serving the second year of a term on the UNSC in 1996. Bangladesh is a very poor country that typically has multiple World Bank programs in place regardless of international politics. Nevertheless the average number of new projects from 1970 to 2004 is less than five not counting the two years it served on the UNSC during the Cold War in 1979 and 1980. In those years, Bangladesh received nine and eleven additional projects (respectively) – unprecedented in Bangladesh and

unmatched since. When it served on the UNSC in 2000 and 2001, the number of new projects were five and three.

The above anecdotal evidence from Latin America, Africa and Asia is circumstantial, but there is a good deal of evidence that G7 countries, and the US in particular, place substantial weight on UN decision making and are willing to use their influence to pressure and reward countries to vote their way. Bennis (1997) claims that "US influence in (and often control of) the UN comes in the form of coercing the organization to take one or another position, or to reject some other position, or pressuring a country or countries to vote a certain way in the General Assembly."

According to Eldar (2004), the US heavily pressured temporary members of the UNSC to get support for a resolution implying military intervention in Iraq 1991, including "a promise of financial help to Columbia, Côte d'Ivoire, Ethiopia and Zaire; a promise to the USSR to keep Estonia, Latvia and Lithuania out of the Nov 1990 Paris Summit conference and to persuade Kuwait and Saudi Arabia to provide it with hard currency..." Before the second Gulf War, the US attempted to buy votes of temporary UNSC members to pass a resolution on the use of armed forces in Iraq (Eldar 2004). Overall, there is strong reason to expect vote-buying to be prevalent in a substantial proportion of UNSC decisions (Eldar 2004).

Nevertheless, one could dismiss anecdotes such as those presented above as there are always alternative explanations, and the Bank can justify just about any loan to a single developing country as part of its overarching goal to promote development or reduce poverty. With such skepticism in mind, we turn to more rigorous analysis of large-n data.

## 4. Data, Method, and Results

### Data

Consider what we observe[8]: Our dataset includes 4,704 country-year observations of 157 countries[9] from 1970 to 2004. The panel is unbalanced because countries enter and leave the sample in different years – this includes all independent countries for the time period, following Cheibub and Gandhi's (2004) reckoning, minus the observations for the five permanent members of the UNSC and industrial countries that never received Bank loans over the period under study.[10]

Our dependent variable is the number of World Bank projects starting in a particular year. Our principal explanatory variable of interest is UNSC membership, a dummy variable coded 1 if a country is temporarily serving on the UNSC, and 0 otherwise. Membership begins on January 1 of the year and lasts two years, although there are some rare cases where service lasted only one year. The number of World Bank projects is taken from Boockman and Dreher (2003) who coded them according to the World Bank's projects website.[11] We updated the data until the year 2004 from the same source. Governments participated in World Bank projects in 2,690 of the 4,704 observations (48 percent), and they served as temporary members of the UN Security Council in 254 observations (5 percent). Serving on the UN Security Council is thus a relatively rare event, whereas participation in World Bank projects is quite common throughout the developing world. Among our sample, the average number of new Bank projects is 1.6, with a maximum of 18. India had 18 new projects in a number of years (1977, 1978, 1980, 1985, 1994, 1996), and so did Indonesia in 1996.

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[8] Appendix B summarizes the sources and definitions of the variables we use, while descriptive statistics are reported in Appendix C.

[9] Some countries, like the Yemen Arab Republic, no longer exist.

[10] Following Cheibub and Gandhi (2004), we do not include Ukraine or Belarus before 1991, as they are not generally considered to have been independent countries. However, they were separate members of the UN and even served as UNSC members in 1948-9, 1984-5 (Ukraine), and 1974-5 (Belarus).

[11] http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,menuPK:115635~pagePK:64020917~piPK:64021009~theSitePK:40941,00.html (accessed June 15, 2007).

One possibility that comes immediately to mind, of course, is the selection problem: if selection onto the UNSC is non-random, some outside factor could cause both UNSC membership and participation in World Bank projects. As shown in Dreher and Vreeland (2007), however, election to the UNSC is idiosyncratic. They establish that election to the UNSC is clearly not related to variables that also affect the World Bank's decision to lend. The only factor that seems somewhat to matter is population size in Latin America and Asia, although even this factor does not predict the timing of a country's election to the UNSC, only the frequency. Thus, we rule out the possibility of reverse causation. We do recognize that bigger countries are likely to have more World Bank programs, however. In our empirical analysis below, we capture this by the inclusion of dummies for each country. In addition, we control for population size.

[Figure 1 here]

As Figure 1 illustrates, governments not serving on the UN Security Council receive fewer World Bank projects.[12] On average, non-members receive about 1.5 new projects per year, while temporary members of the UNSC get almost 3. Restricting our attention to only those observations of countries that actually serve on the UNSC, we see that the average number of new World Bank projects is high during both years a country serves on the Council. Comparing the Cold War to the post-Cold War period reveals that, although the average number of new World Bank projects received by UNSC members reduces somewhat, the difference between members and non-members remains substantial.

[Figure 2 here]

What about patterns within the regional caucuses that nominate candidates for UNSC membership? Figure 2 shows that the pattern holds at varying levels of strength for every developing region in the world – Africa, Asia and the South Pacific, Latin

[12] The horizontal line in Figure 1 and the following figure shows the average number of new projects across our entire sample.

America and the Caribbean. The basic pattern holds, but is notably weak in Sub-Saharan Africa. The same is true for the Middle East and North Africa, where UN Security Council votes are known to be costly to bribe or reward because of the salience of issues involving Israel or alliances during the Cold War. It may not be worth the effort of powerful countries to push the Bank to assist these countries, especially where Bank loans will have little impact in countries rich in oil and foreign reserves.

**Method**

Does this pattern hold when put to more rigorous tests? To explore this, we analyze various statistical models with the number of new World Bank projects as our dependent variable and UN Security Council Membership as principal explanatory variable of interest. Following a bivariate analysis of the relationship between UNSC membership and the number of new World Bank projects, we introduce different control variables to ensure that our results are not spurious and present for each specification four statistical models – (1) Poisson with fixed country and year effects, (2) Poisson with fixed country effects, (3) Negative Binomial with fixed country and year effects, and (4) Negative Binomial with fixed country effects.[13] As the data on new Bank projects are strongly skewed to the right, clearly, estimation with OLS would be inappropriate. Furthermore, significant overdispersion leads us to prefer the Negative Binomial estimator (with fixed effects).[14]

In choosing our covariates, we mainly follow Dreher et al. (2007), including the most robust predictors of IMF participation following the Extreme Bounds Analysis (EBA) of Sturm et al. (2005) to their analysis of UNSC membership on IMF program participation. Arguably, the determinants of new World Bank projects may be related to those of IMF programs. We thus include debt service, measured as public and publicly guaranteed debt service as a percentage of gross national income, taken from the World

[13] We also experimented with models using random instead of fixed effects. None of the conclusions is affected by this.

[14] Overall, likelihood ratio tests comparing the Negative Binomial results with those of the Poisson model, as depicted in Tables 1 and 2 below, confirm this.

Development Indicators (2006). Investment, measured as private and public gross national investment as a share of gross domestic product (GDP) comes from Penn World Tables 6.1. We include lagged elections, which is a dummy variable coded 1 if elections were held the previous year and 0 otherwise. It has been argued that World Bank involvement is more likely after national elections, as Bank conditionality is used to fight the effects of expansionary policies in the run up to the election (Dreher and Vaubel 2004). We do not follow Dreher et al. (2007) in using the level of international reserves which is important for IMF programs but not likely to be related to new World Bank projects.[15] However, we include (log) per capita GDP. This is because development is an important element in official World Bank policies.[16] As mentioned above, we also include (log) population to the regressions. Finally, we employ a dummy variable that is one, when a country is under an IMF program. For some World Bank (structural adjustment) projects, IMF programs are a pre-condition. Not controlling for IMF participation might thus simply capture the effect of UNSC membership on the IMF. The next section presents our results.

[Table 1 here]

**Results**

Table 1 presents the results of the bivariate analysis under various statistical models. In all cases, the effect of UN Security Council membership on new World Bank projects is positive and significant at the ten percent level at least. Columns 1 and 5 do not include additional control variables and therefore represent the situation as depicted in Figure 1. These estimates suggest that countries which are temporary member of the UNSC do on average receive 1.3 World Bank projects more per year than non-member countries. This implies a 77% increase, i.e., the associated incidence-rate ratio equals (exp(0.57)=) 1.77.

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[15] When included to the regression, the coefficient is completely insignificant, while the main results are unchanged. The robustness analysis reported below includes this variable.

[16] In addition, per capita GDP shows to be a significant predictor of IMF programs also, as the robustness section in Dreher et al. (2007) shows.

Figure 2 highlighted that regional differences can be substantial. For that reason columns 2 and 6 include, besides fixed effects for each year, dummies for the following regions: South Asia, East Asia, Latin America/Caribbean, Middle East/North Africa, Sub-Saharan Africa, Eastern Europe, and Western Europe. As with any complete set of dummy variables, one must be left out of the analysis. In Table 1, we omit Western Europe. So the significantly positive coefficients for the other regions indicate that these regions are more likely to get World Bank projects than Western European countries – not controlled for other determinants of participation like income and investment (as already suggested by Figure 2). Again, the significantly positive relationship between UN Security Council membership and participation in new World Bank projects persists and remains high.

In a next step, we replace the regional fixed effects by conditional country fixed effects. Although this has a sizeable impact on our parameter of interest, it remains significant. Once country-specific elements which might drive both the number of new World Bank projects and UNSC membership are included (Columns 3 and 7), the incidence-rate ratios drop to 1.11. Hence, UNSC membership increases the number of new World Bank projects on average by approximately 11%. Finally, this result is not affected by removing the year dummies from the specification. Note, though, that likelihood-ratio tests as shown at the bottom of the table indicate that the results presented in Column 7 are statistically to be preferred as it can be considered to be the most general model and restrictions implied by the other specifications can be clearly rejected.

To summarize Table 1, the statistically significant relationship between UN Security Council membership and new World Bank projects holds when we introduce regional and/or conditional country and year fixed effects and is independent of whether we use Poisson or Negative Binomial regression methods.

[Table 2 here]

Table 2 introduces the control variables discussed above to the fixed effects models. Subsequently, we test whether the fixed effects can be removed from the

specification. According to these results, countries currently under an IMF program also have roughly (exp(0.23)=) 25 percent more new World Bank projects.

Debt service has a strongly positive significant effect in all of our models. More debt leads to more need for World Bank projects. The effect is not surprising.[17] Investment, however, has a surprisingly robust positive and significant effect on the number of new World Bank projects. Perhaps the Bank acts like a bank when it comes to investment levels – it prefers country episodes with higher levels. As expected, the number of new World Bank projects decreases with GDP per capita – countries becoming poorer turn to the Bank more frequently. Population has a strangely negative effect when country and year fixed effects are included in the Poisson model (Column 1), indicating countries in which the population grows above the world average have more difficulties receiving additional World Bank projects. When we estimate conditional on just country-specific effects, this result disappears.[18] Lagged elections do not significantly affect the number of new World Bank projects according to all specifications.

Turning to our principal independent variable of interest, UNSC membership has a positive effect on participation in World Bank projects in all of our models. The finding is significant at the ten percent level (at least) in all models. Note that this is true even with the loss of observations due to missing data in our control variables; the sample size is reduced to just about 1,840 observations from the original 4,293 observations in Table 1. Even after introducing control variables, the impact of UNSC membership remains substantial. Evaluated at the sample means of the covariates, the number of new World Bank projects starting in a particular year increases by 10% when a country participates on the UNSC.

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[17] Marchesi (2003) tests whether countries having arrangements with the IMF are more likely to obtain a rescheduling of their external debt than others. She concludes that the adoption of an IMF program works as signal of a country's "good intent" which is rewarded with debt relief. Her results confirm the existence of a significant effect of the adoption of an IMF program on the subsequent concession of a debt rescheduling by private creditors.

[18] Note that country size, as measured by population, is already captured by the country-specific effects. In case we estimate without country-specific effects, the population coefficient has the expected positive sign and is highly significant.

To summarize this section, using a battery of different statistical models and control variables used in the previous literature, we find that UNSC membership robustly increases the number of new World Bank projects – with an estimated increase of about 10%. We take this as evidence in favor of our argument that the G7 use the World Bank to pursue international political goals.

## 5. Extensions and tests for robustness

In this section, we present several extensions to our basic analysis.

First, we investigate the timing of UNSC membership influence on World Bank projects in greater detail. Recall Figure 1, where we display the development of new Bank projects during the two years of UNSC membership. The number of new projects appears to slightly increase in the second year. How significant is this increase? Following Kuziemko and Werker (2006), we employ a series of dummy variables to examine the trend over time.

Second, we split the sample according to the Cold and post-Cold War era. Figure 1 suggests that the membership effect on new World Bank projects is somewhat less pronounced after the end of the Cold War. Is this difference significant? Vote buying was probably more important during the Cold War. However, there has been some discussion about whether the end of the Cold War indeed introduced a structural shift in countries' positions in the UN, as measured by General Assembly voting (see, e.g. Voeten 2000). Arguably, the determinants of voting in the UN need not be constant over the 30 years under study. Pressure by both the West and the East on non-aligned countries was rather open and direct during the Cold War. As Dreher and Sturm (2006) argue, comparably obvious direct pressure might not be tolerated by the international community today. In addition, after the end of the Cold War countries are less constrained by alignments and might thus be more likely to vote according to their preferences when not being bribed. Particularly, economically weak countries no longer need protection by "their" bloc and now need to be bribed to achieve alignment. Vote buying might thus well prevail in the post-Cold War era also.

Third, we investigate whether UNSC membership also influences the *size* of World Bank loans. Different World Bank projects are of substantially different economic magnitude, and the amount of money associated with these projects may matter more than the number of projects approved. It has been shown, for example, that countries voting with the US in the UN General Assembly receive larger IMF loans (Oatley and Yackee 2004). When the World Bank's major shareholders use the Bank to bribe or reward temporary UNSC members, we expect them to receive larger loans, all else equal. However, the results in Dreher et al. (2007) show that – while UNSC membership does significantly affect the probability to be under an IMF program – there is no statistically significant impact of UNSC membership on the size of the IMF's loans. We test whether the same holds for the World Bank.

As our final extension, we examine the robustness of the relationship between UNSC membership and participation in World Bank projects with Extreme Bounds Analysis. Almost 300 specifications with different combinations of control variables are analyzed. The EBA approach is described in detail in Appendix A. Following Sala-i-Martin (1997), we consider the impact of UNSC membership on IMF programs to be robust if the fraction of the cumulative distribution function lying on one side of zero exceeds 0.90. The variables our EBA includes in all specifications are: Participation in IMF Programs, Debt Service, Investment, GDP per capita, population, and Lagged Election. Each regression also includes up to three combinations of: GDP growth, change in international reserves, level of international reserves, economic globalization, social globalization, political globalization, regime type, voting inline with the average G7 country in the UN General Assembly, government budget balance (in percent of GDP), rate of inflation, current account balance (in percent of GDP), and (log) checks and balances. These variables have all been proposed in the previous literature as potential determinants of World Bank involvement, and are described in more detail in Appendix B.

The statistical model we employ from here onwards is the one we consider to be the most rigorous and most appropriate – Negative Binomial regression with fixed effects. We use the same set of control variables used in Table 2 above.

[Table 3 here]

Table 3 presents the results of the first extension. Regarding the timing of UNSC membership influence on World Bank projects, we include a series of dummy variables for two years and one year before UNSC membership, the first year and second year of membership, and one year and two years after membership ends. Subsequently, we remove the insignificant dummies in three steps. As indicated by the statistically significant coefficients for the UNSC Year 2 dummy shown in all columns, the impact of UNSC membership is by far the strongest during the second year of the two-year term. During the second year of UNSC membership a country received on average 20% more new World Bank projects than otherwise. This is contrary to the results in Dreher et al. (2007), showing that the effect of UNSC membership on IMF program participation is strongest in the first year of membership. Most likely, the difference in results is due to the typically longer preparation phase of World Bank projects. While IMF loans are usually negotiated quickly, the project preparation phase of the Bank can range from a few months to three years, depending on the complexity of the project proposed.[19]

[Table 4 here]

Table 4 contains the results separated along the Cold War/post-Cold War dimension. Whereas the left part of column 1 reports the coefficient of the variable over the full sample, its right part shows the interaction of the respective variable with a dummy for the post-Cold War period. In other words, it documents the change in the respective variable's influence on new World Bank projects after the end of the Cold War. As can be seen, there is no significant change of the impact of UNSC membership on participation in World Bank projects after the end of the Cold War period. We thus conclude that the Bank is still being used as political tool of their major shareholders. Column 2 shows that this conclusion is strengthened when focusing on the second year of UNSC membership.

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[19] http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:20120731~menuPK:41390~pagePK:41367~piPK:51533~theSitePK:40941,00.html (accessed June 15, 2007).

[Table 5 here]

In Table 5 we present results for disbursed or, respectively, committed World Bank loans as dependent variable. Columns 1 and 3 show the results when we use Ordinary Least Squares corrected for both country and time fixed effects. Columns 2 and 4 report results using a Tobit model including random country effects and fixed regional and year effects. As can be seen, neither disbursements nor commitments are significantly affected by temporary UNSC membership. This is in line with the results for the IMF reported in Dreher et al. (2007).

Finally, results of the Extreme Bounds Analysis are summarized in Table 6. Again, we report results for our preferred specification which includes both country and year fixed effects. On top of that we also report the results including only conditional fixed country effects, or when replacing the UNSC dummy by the dummy for the second year of membership.

[Table 6 here]

According to the results, the impact of UNSC membership on the number of new World Bank projects is indeed robust to the choice of control variables. The coefficient is significant in two thirds of the specifications. With a CDF(0) of 0.93 the threshold suggested by Sala-i-Martin (1997) is easily passed. Focusing on the second year of membership only, the results again become stronger; the CDF(0) rises to 0.99 and on average a country receives close to 22 percent more new World Bank projects during the second year than otherwise would be the case.

We, thus, conclude the following from our analysis: elected members of the UNSC are more likely than other countries to receive projects from the World Bank. The projects are likely to start during the second year of the two-year UNSC term. The actual loan size is not affected by UNSC membership.

## 6. Conclusions

Our results contribute to the growing literature showing that international financial institutions have been employed as a tool of foreign policy by its major stakeholders. Whether its loans and grants were used to bribe or reward, the World Bank's projects have been funneled to politically important developing countries, such as those serving a term on the UN Security Council. Given the nature of our large-n study, we do not know who took the initiative – whether the temporary UNSC members increased their requests for projects, having increased confidence the World Bank would accept – or, alternatively, whether the Bank's major shareholders took initiative. In any case, the Bank's projects are one mechanism by which the major stakeholders of the Bank – mainly the US, but also Japan, Germany, France and the United Kingdom – can win the favor of voting members of the UN Security Council.

This is not what the institution was intended to be used for. Originally, the World Bank was set up to promote development. The failure of World Bank projects, which involve both loans and policy conditions designed to promote development and reduce poverty, is blamed by many on the design of programs and on the failure of countries to adopt World Bank reforms. Part of the failure of the World Bank is that its loans have not been exclusively used to promote development in the first place. Instead, the loans have been used as a political tool, funneled to countries regardless of economic policy or economic need.

The governance of the World Bank is in part to blame. Those arguing for the reform of World Bank governance call for a redistribution of vote shares so that recipient countries have a greater voice.[20] However, changing vote shares would not change the fact that the World Bank can still be used to achieve foreign policy objectives; it would just change the players who get to use the World Bank to pursue foreign policy objectives.

To prevent the abuse of the World Bank, the institution's main governing body – the Executive Board – must be made independent, much like central bank presidents have

[20] See Bird and Rowlands (2006) for a recent discussion. Also see Buira (2005).

been given independence domestically in many countries. The Directors who sit on the World Bank Executive Board should be appointed for long, non-renewable terms, which do not coincide with the election cycles of the major shareholders. Only when the governance of the World Bank is freed from pursuing foreign policy objectives can we expect the institution function according to its mandate.

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**Table 1: The Impact of UN Security Council membership on new World Bank projects under different statistical models**

| | Poisson | | | | Negative Binomial | | | |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| | pooled | regional effects | fixed country and year effects | only country effects | pooled | regional effects | fixed country and year effects | only country effects |
| Temporary UNSC member | 0.57 | 0.55 | 0.11 | 0.12 | 0.57 | 0.48 | 0.10 | 0.11 |
| | (14.57)*** | (13.94)*** | (2.67)*** | (2.87)*** | (6.97)*** | (5.99)*** | (1.95)* | (1.97)** |
| South Asia dummy | | 1.26 | | | | 1.21 | | |
| | | (14.54)*** | | | | (8.97)*** | | |
| East Asia dummy | | 0.70 | | | | 0.68 | | |
| | | (8.13)*** | | | | (5.31)*** | | |
| Latin America/Caribbean dummy | | 0.55 | | | | 0.53 | | |
| | | (6.53)*** | | | | (4.36)*** | | |
| Middle East/North Africa dummy | | 0.51 | | | | 0.50 | | |
| | | (5.74)*** | | | | (3.77)*** | | |
| Sub-Saharan Africa dummy | | 0.49 | | | | 0.48 | | |
| | | (5.88)*** | | | | (3.98)*** | | |
| Eastern Europe dummy | | 0.61 | | | | 0.61 | | |
| | | (6.96)*** | | | | (4.71)*** | | |
| Country effects | | | fixed | fixed | | | fixed | fixed |
| Year effects | | fixed | fixed | | | fixed | fixed | |
| Log likelihood | -9,239.93 | -8,908.92 | -6,033.15 | -6,156.32 | -7,700.85 | -7,603.40 | -5,970.67 | -6,049.56 |
| LR-test w.r.t. fixed-effects model - Chi2 | | 5,751.54 | | 246.34 | | 3,265.46 | | 157.79 |
| LR-test w.r.t. fixed-effects model - p-value | | 0.00 | | 0.00 | | 0.00 | | 0.00 |
| LR-test w.r.t. Poisson model - Chi2 | | | | | 3,078.17 | 2,611.05 | 124.97 | 213.52 |
| LR-test w.r.t. Poisson model - p-value | | | | | 0.00 | 0.00 | 0.00 | 0.00 |

Absolute value of z statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

All regressions contain 4,293 observations covering 141 countries and 35 years and include a constant term.

**Table 2: The Impact of UN Security Council membership on new World Bank projects under different statistical models, extended model**

| | Poisson | | Negative binomial | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| | | only | | only |
| | fixed | country | fixed | country |
| | effects | effects | effects | effects |
| Temporary UNSC member | 0.09 | 0.10 | 0.10 | 0.10 |
| | (1.83)* | (2.02)** | (1.73)* | (1.78)* |
| Debt service (in percent of GDP) | 0.01 | 0.01 | 0.01 | 0.01 |
| | (4.47)*** | (4.02)*** | (4.12)*** | (3.92)*** |
| IMF program | 0.24 | 0.22 | 0.23 | 0.22 |
| | (6.00)*** | (5.86)*** | (5.43)*** | (5.38)*** |
| Investment (in percent of GDP) | 0.02 | 0.02 | 0.02 | 0.02 |
| | (3.42)*** | (3.92)*** | (3.90)*** | (4.75)*** |
| GDP per capita (log) | -0.55 | -0.41 | -0.67 | -0.66 |
| | (4.35)*** | (3.50)*** | (5.71)*** | (6.02)*** |
| Population (log) | -1.01 | -0.08 | 0.09 | 0.08 |
| | (2.90)*** | (0.65) | (0.69) | (0.93) |
| Lagged election | -0.04 | -0.03 | -0.04 | -0.03 |
| | (1.07) | (0.93) | (0.99) | (0.85) |
| Country effects | fixed | fixed | fixed | fixed |
| Year effects | fixed | | fixed | |
| Log likelihood | -2,706.57 | -2,728.74 | -2,700.87 | -2,716.64 |
| LR-test w.r.t. fixed-effects model - Chi2 | | 44.35 | | 31.53 |
| LR-test w.r.t. fixed-effects model - p-value | | 0.02 | | 0.25 |
| LR-test w.r.t. Poisson model - Chi2 | | | 11.38 | 24.20 |
| LR-test w.r.t. Poisson model - p-value | | | 0.00 | 0.00 |

Absolute value of z statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

All regressions contain 1,841 observations covering 111 countries and 28 years.

**Table 3: The Impact of UN Security Council membership on new World Bank projects over time**

| | Negative binomial | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Temporary UNSC member two years before | 0.04 | | | |
| | (0.52) | | | |
| Temporary UNSC member year before | 0.03 | 0.02 | | |
| | (0.33) | (0.31) | | |
| Temporary UNSC member year 1 | -0.01 | -0.01 | -0.01 | |
| | (0.15) | (0.18) | (0.09) | |
| Temporary UNSC member year 2 | 0.19 | 0.18 | 0.19 | 0.19 |
| | (2.52)** | (2.52)** | (2.67)*** | (2.69)*** |
| Temporary UNSC member year after | -0.11 | -0.12 | | |
| | (1.34) | (1.38) | | |
| Temporary UNSC member two years after | -0.02 | | | |
| | (0.26) | | | |
| IMF program | 0.23 | 0.23 | 0.24 | 0.23 |
| | (5.43)*** | (5.48)*** | (5.50)*** | (5.51)*** |
| Debt service (in percent of GDP) | 0.01 | 0.01 | 0.01 | 0.01 |
| | (4.17)*** | (4.15)*** | (4.12)*** | (4.12)*** |
| Investment (in percent of GDP) | 0.02 | 0.02 | 0.02 | 0.02 |
| | (3.88)*** | (3.88)*** | (3.92)*** | (3.92)*** |
| GDP per capita (log) | -0.67 | -0.66 | -0.67 | -0.67 |
| | (5.68)*** | (5.67)*** | (5.69)*** | (5.70)*** |
| Population (log) | 0.10 | 0.10 | 0.09 | 0.09 |
| | (0.77) | (0.78) | (0.68) | (0.68) |
| Lagged election | -0.04 | -0.04 | -0.04 | -0.04 |
| | (1.12) | (1.12) | (1.14) | (1.14) |
| Observations | 1,841 | 1,841 | 1,841 | 1,841 |
| Number of countries | 111 | 111 | 111 | 111 |
| Number of years | 28 | 28 | 28 | 28 |
| Log likelihood | -2,697.69 | -2,697.86 | -2,698.94 | -2,698.95 |
| Equal UNSC coeff. - Chi2 | 9.24 | 8.80 | 3.85 | |
| Equal UNSC coeff. - p-value | 0.10 | 0.03 | 0.05 | |

Absolute value of z statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

All regressions include conditional country- and year-fixed effects

All regressions contain 1,841 observations covering 111 countries and 28 years.

**Table 4: The Impact of UN Security Council membership on new World Bank projects before and after the Cold War**

| | (1) | | (2) | |
|---|---|---|---|---|
| | before cold war | Δ after cold war | before cold war | Δ after cold war |
| Temporary UNSC member | 0.16 | -0.18 | | |
| | (2.29)** | (1.56) | | |
| Temporary UNSC member year 2 | | | 0.19 | -0.02 |
| | | | (2.15)** | (0.15) |
| IMF program | 0.22 | 0.06 | 0.22 | 0.06 |
| | (4.26)*** | (0.75) | (4.30)*** | (0.75) |
| Debt service (in percent of GDP) | 0.01 | 0.01 | 0.01 | 0.01 |
| | (2.49)** | (2.46)** | (2.51)** | (2.44)** |
| Investment (in percent of GDP) | 0.02 | -0.02 | 0.02 | -0.02 |
| | (4.26)*** | (2.28)** | (4.29)*** | (2.30)** |
| GDP per capita (log) | -0.50 | 0.13 | -0.49 | 0.12 |
| | (3.46)*** | (3.02)*** | (3.36)*** | (2.97)*** |
| Population (log) | 0.11 | -0.01 | 0.11 | -0.02 |
| | (0.74) | (0.54) | (0.68) | (0.82) |
| Lagged election | 0.03 | -0.17 | 0.02 | -0.17 |
| | (0.49) | (2.14)** | (0.39) | (2.12)** |
| Log likelihood | -2,687.95 | | -2,687.32 | |
| No Cold War effect - Chi2 | 26.46 | | 23.85 | |
| No Cold War effect - p-value | 0.00 | | 0.00 | |

Absolute value of z statistics in parentheses.

* significant at 10%; ** significant at 5%; *** significant at 1%

The regression includes conditional country- and year-fixed effects.

The regression contains 1,841 observations covering 111 countries and 28 years; estimation is with negative binomial regressions.

**Table 5: The Impact of UN Security Council membership on World Bank disbursements and commitments**

| | (1) Disbursements (as % of GDP) OLS | (2) Disbursements (as % of GDP) Tobit | (3) Commitments (as % of GDP) OLS | (4) Commitments (as % of GDP) Tobit |
|---|---|---|---|---|
| Temporary UNSC member | -0.0011 | -0.0011 | -0.0010 | -0.0009 |
| | (1.34) | (1.36) | (0.54) | (0.52) |
| IMF program | 0.0048 | 0.0047 | 0.0072 | 0.0069 |
| | (9.02)*** | (9.68)*** | (6.22)*** | (6.62)*** |
| Debt service (in percent of GDP) | 0.0002 | 0.0002 | 0.0003 | 0.0003 |
| | (10.23)*** | (12.70)*** | (5.27)*** | (7.69)*** |
| Investment (in percent of GDP) | 0.0001 | 0.0002 | 0.0002 | 0.0004 |
| | (1.31) | (3.64)*** | (1.52) | (4.72)*** |
| GDP per capita (log) | -0.0066 | -0.0084 | -0.0084 | -0.0109 |
| | (4.23)*** | (15.97)*** | (2.44)** | (12.04)*** |
| Population (log) | -0.0005 | -0.0024 | -0.0198 | -0.0032 |
| | (0.12) | (11.68)*** | (2.23)** | (7.11)*** |
| Lagged election | 0.0000 | -0.0001 | -0.0008 | -0.0009 |
| | (0.05) | (0.11) | (0.79) | (0.82) |
| Observations | 1,827 | 1,827 | 1,827 | 1,827 |
| Number of countries | 111 | 111 | 111 | 111 |
| Number of years | 28 | 28 | 28 | 28 |

Absolute value of t statistics in parentheses.

* significant at 10%; ** significant at 5%; *** significant at 1%

The OLS models include conditional country- and year-fixed effects.

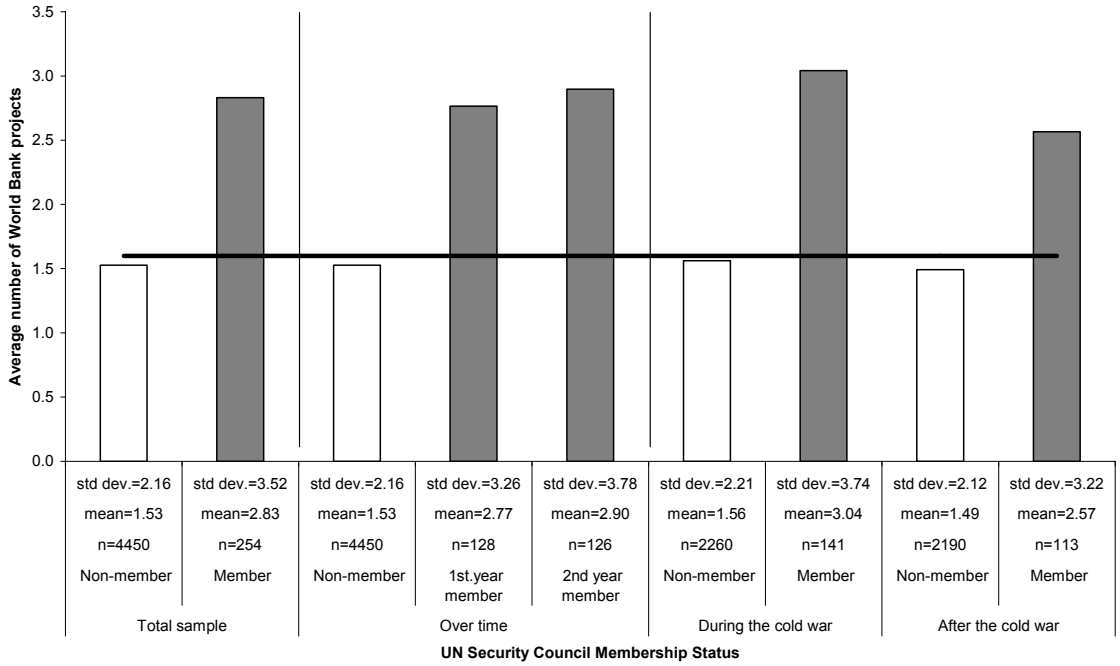
The Tobit models are estimated with country random effects and regional- and year-fixed effects.

**Table 6: The Impact of UN Security Council membership on new World Bank projects, Extreme Bounds Analysis**

| | Negative binomial fixed effects | Negative binomial only country effects | Negative binomial fixed effects, 2nd UNSC year only |
|---|---|---|---|
| Average Beta Coefficient | 0.103 | 0.101 | 0.196 |
| Average robust std. error | 0.061 | 0.061 | 0.079 |
| % Sign. at 10% level | 67.4% | 65.1% | 97.0% |
| CDF(0) | 0.93 | 0.92 | 0.99 |
| lower bound | -0.111 | -0.112 | -0.037 |
| upper bound | 0.290 | 0.287 | 0.421 |
| # of combinations | 298 | 298 | 298 |
| Average # of observations | 1,369 | 1,369 | 1,369 |

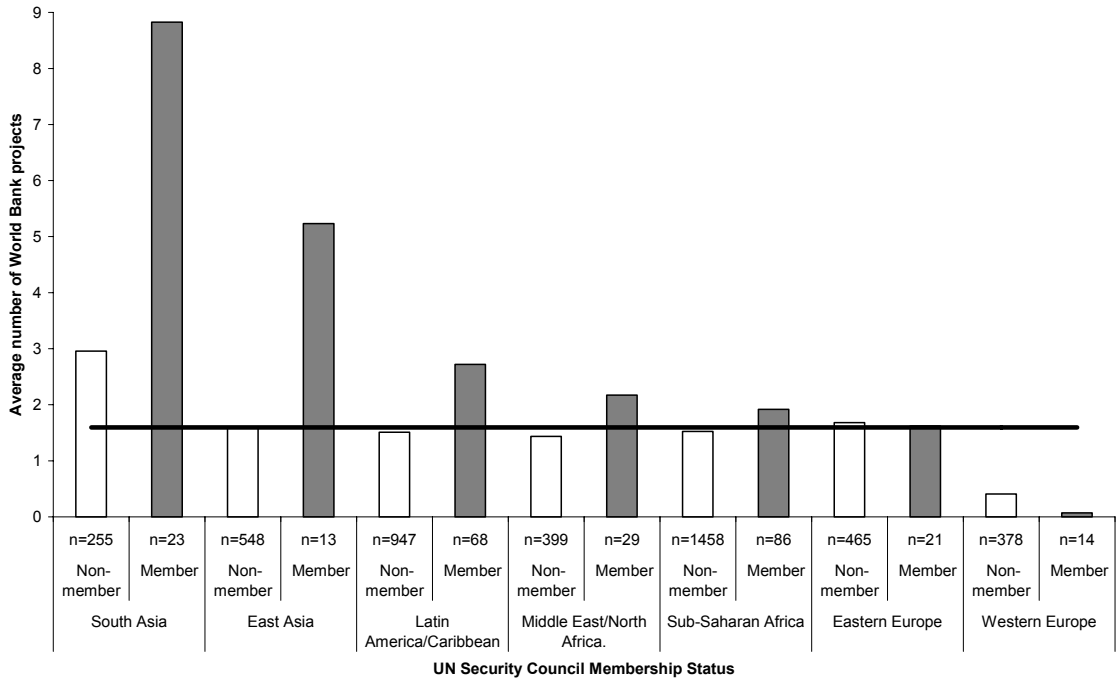
Variables included in all specifications are: IMF program, Debt Service, Investment, GDP per capita (log), Population (log), and Lagged Election. The vector of variables from which up to three are included in each of the 298 possible combinations consists of: GDP growth, change in international reserves, level of international reserves, economic globalization, social globalization, political globalization, regime type, voting inline with the average G7 country in the UN General Assembly, government budget balance (in percent of GDP), rate of inflation, current account deficit (in percent of GDP), (log) checks and balances.

**Figure 1: Number of new World Bank projects by non-permanent UN Security Council Membership**




Note: The horizontal line shows the average number of new projects across the entire sample.

**Figure 2: Number of new World Bank projects by UN Security Council Membership across regions**




Note: The horizontal line shows the average number of new projects across the entire sample.

**Appendix A: Extreme Bounds Analysis (EBA)**

To examine both the sensitivity of our baseline model and the coefficients of our explanatory variables of interest to changes in model specification we apply (variants) of the so-called Extreme Bounds Analysis (EBA) as suggested by Leamer (1983) and Levine and Renelt (1992). EBA has been widely used in the economic growth literature.[21] The central difficulty in this research – which also applies to the research topic of the present paper – is that several different models may all seem reasonable given the data, but yield different conclusions about the parameters of interest. The EBA can be exemplified as follows. Equations of the following general form are estimated:

$$Y = \alpha M + \beta F + \gamma Z + u, \qquad (1)$$

where $Y$ is the dependent variable; $M$ is a vector of 'standard' explanatory variables; $F$ is the variable of interest; $Z$ is a vector of up to three possible additional explanatory variables, which according to the literature may be related to the dependent variable; and $u$ is an error term. The extreme bounds test for variable $F$ states that if the lower extreme bound for $\beta$ – i.e. the lowest value for $\beta$ minus two standard deviations – is negative, while the upper extreme bound for $\beta$ – i.e. the highest value for $\beta$ plus two standard deviations – is positive, the variable $F$ is not robustly related to $Y$.

As argued by Temple (2000), it is rare in empirical research that we can say with certainty that one model dominates all other possibilities in all dimensions. In these circumstances, it makes sense to provide information about how sensitive the findings are to alternative modeling choices. The EBA provides a relatively simple means of doing exactly this. Still, the EBA has been criticized in the literature. Sala-i-Martin (1997) argues that the test applied in the Extreme Bounds Analysis poses too rigid a threshold in most cases. If the distribution of $\beta$ has some positive and some negative support, then one is bound to find at least one regression for which the estimated coefficient changes sign if enough regressions are run. We will therefore not only report the extreme bounds, but also the percentage of the regressions in which the coefficient of the variable $F$ is significantly different from zero at the 10 percent level. Moreover, instead of analyzing

[21] See, e.g. Levine and Renelt (1992), Sala-i-Martin (1997).

just the extreme bounds of the estimates of the coefficient of a particular variable, we follow Sala-i-Martin's (1997) suggestion to analyze the entire distribution. Following this suggestion, we not only report the unweighted parameter estimate of β and its standard deviation but also the unweighted cumulative distribution function (CDF(0)), i.e. the fraction of the cumulative distribution function lying on one side of zero. We will base our conclusions on the Sala-i-Martin variant of the EBA.[22]

[22] Sala-i-Martin (1997) proposes using the (integrated) likelihood to construct a weighted CDF(0). However, the varying number of observations in the regressions due to missing observations in some of the variables poses a problem. Sturm and de Haan (2001) show that as a result this goodness of fit measure may not be a good indicator of the probability that a model is the true model and the weights constructed in this way are not equivariant for linear transformations in the dependent variable. Hence, changing scales will result in rather different outcomes and conclusions. We therefore restrict our attention to the unweighted version. Furthermore, for technical reasons – in particular our unbalanced panel setup – we are unable to use the extension of this approach called Bayesian Averaging of Classical Estimates (BACE) as introduced by Sala-i-Martin et al. (2004).

## Appendix B: Sources and Definitions

| Variable | Description | Source |
|---|---|---|
| World Bank projects | Number of new World Bank projects starting in a particular year. | Bockmann and Dreher (2003), www.worldbank.org |
| World Bank disbursements | IBRD and IDA net disbursements in percent of GDP. | World Bank (2006a) |
| World Bank comittments | IBRD and IDA comittments in percent of GDP. | World Bank (2006a) |
| Temp.UNSC member | Dummy coded 1 if a country is a non-permanent member of the United Nations Security Council, and 0 otherwise. | www.un.org |
| IMF program | Dummy coded 1 if a country participates in an IMF program during part of the year under Stand-by, Extended Fund Facility, Structural Adjustment Facility, and Extended Structural Adjustment Facility/Poverty Reduction and Growth Facility, and 0 otherwise. | IMF Annual Report (various years) |
| Debt service (% of GDP) | Total debt service outstanding in percent of GNI. | World Bank (2006b) |
| Investment (% of GDP) | Private and public gross national investment as a share of gross domestic product (GDP). | Przeworski et al. (2000), extended by Cheibub et al. |
| GDP per capita (log) | Measured in constant 2000 US dollars. | Przeworski et al. (2000), extended by Cheibub et al. |
| Population (log) | A countries' (log) population. | World Bank (2006b) |
| Lagged election | Dummy variable coded 1 if elections were held the previous year and 0 otherwise. | Beck et al. (1999) |
| Growth | Growth rate of GDP per capita. | Przeworski et al. (2000), extended by Cheibub et al. |
| Foreign reserves | Gross international reserves in terms of the number of months of imports of goods and services which could be paid for. | World Bank (2006b) |
| Regime | Dummy variable coded 1 for dictatorships and 0 for democracy. | Przeworski et al. (2000), extended by Cheibub et al. |
| Voting inline | Percent of times a country votes in line with the average G7 country in the UN General Assembly. | Dreher and Sturm (2006) |
| Budget balance (% of GDP) | Overall budget balance is current and capital revenue and official grants received, less total expenditure and lending minus repayments for central government in percent of GDP. | World Bank (2006b) |
| Inflation | Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a fixed basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used. | World Bank (2006b) |
| Current account balance | Sum of net exports of goods, services, net income, and net current transfers (in percent of GDP). | World Bank (2006b) |
| Changes in international reserves | Changes in net reserves is the net change in a country's holdings of international reserves resulting from transactions on the current, capital, and financial accounts (in percent of GDP). | World Bank (2006b) |
| log(checks) | Log of the number of checks and balances. | Beck et al. (1999) |
| Economic Globalization | KOF index of economic globalization, measuring long distance flows of goods, capital and services as well as information and perceptions that accompany market exchanges. | Dreher (2006), updated in Dreher, Gaston and Martens (2007) |
| Social Globalization | KOF index of social globalization, measuring the spread of ideas, information, images, and people. | Dreher (2006), updated in Dreher, Gaston and Martens (2007) |
| Political Globalization | KOF index of political globalization, measuring diffusion of government policies. | Dreher (2006), updated in Dreher, Gaston and Martens (2007) |

**Appendix C: Descriptive Statistics**

| Variable | Obs. | Mean | Std.Dev. | Min | Max |
|---|---|---|---|---|---|
| World Bank projects | 4,704 | 1.598 | 2.277 | 0.000 | 18.000 |
| World Bank disbursements | 3,656 | 0.010 | 0.015 | -0.001 | 0.178 |
| World Bank comittments | 3,620 | 0.013 | 0.025 | 0.000 | 0.598 |
| Temporary UNSC member | 4,704 | 0.054 | 0.226 | 0.000 | 1.000 |
| IMF program | 4,694 | 0.353 | 0.478 | 0.000 | 1.000 |
| Debt service (%gdp) | 2,740 | 17.198 | 14.229 | 0.000 | 152.270 |
| Investment (%gdp) | 3,056 | 13.709 | 8.713 | -3.460 | 72.410 |
| GDP per capita (log) | 4,111 | 7.005 | 1.262 | 4.035 | 10.877 |
| Population (log) | 4,387 | 15.225 | 1.932 | 9.741 | 20.771 |
| Lagged election | 3,551 | 0.198 | 0.403 | 0.000 | 2.000 |
| Growth | 4,196 | 3.505 | 7.002 | -51.031 | 106.280 |
| Foreign reserves | 3,069 | 3.423 | 3.080 | -0.092 | 25.360 |
| Regime | 4,080 | 0.671 | 0.470 | 0.000 | 1.000 |
| Voting inline | 2,807 | 0.553 | 0.175 | 0.000 | 0.964 |
| Budget balance | 2,556 | -3.222 | 6.172 | -64.493 | 58.713 |
| Inflation | 3,332 | 59.207 | 579.312 | -100.000 | 23773.130 |
| Current account balance | 3,131 | -5.330 | 22.557 | -894.543 | 56.698 |
| Changes in international reserves | 3,121 | -0.011 | 0.045 | -0.483 | 0.489 |
| log (checks) | 3,133 | 0.514 | 0.630 | 0.000 | 2.890 |
| Economic globalization | 2,697 | 43.683 | 17.281 | 7.839 | 95.970 |
| Social globalization | 3,147 | 31.000 | 16.310 | 1.927 | 92.748 |
| Political globalization | 3,147 | 39.112 | 20.993 | 1.362 | 94.223 |