

## POLICY POINTS

**Donor governments** should be aware that they cannot control how domestic political elites will allocate development finance at a subnational level.

**Donors should corroborate** with local non-governmental organizations to implement their projects - although this may be more difficult for large-scale infrastructure projects.

**Regime type should not be considered** when donors are making decisions as to how to distribute their finance.

## Development Finance and Distributive Politics: Comparing Chinese and World Bank Finance in sub-Saharan Africa

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WHEN LARGE WINDFALL GAINS LIKE FOREIGN FINANCE become available to weak states, which parts of the country will receive the newly available resources? The existing literature shows that development finance does not always reach the people who need it the most, both within and across countries. While both the donors and recipient countries influence the subnational distribution of development finance, few have examined the two variables together.

In this policy brief, I focus on the distributive politics of foreign finance in 48 countries in Africa, the region with the highest number of aid-dependent countries. To examine how donors' preferences and recipient countries' domestic politics affect the subnational distribution of development finance, I focus on two types of financiers and four types of regimes. Regarding the financier type, I compare the top two largest single financiers of Africa's infrastructure projects: China and the World Bank. I hypothesize that the two financiers may have different impacts on development finance distribution because the World Bank's finance is less likely to be manipulated by local politicians than China's finance, which attaches little conditionality on disbursement due to China's non-interference foreign policy. Moreover, this comparison will have implications for the competition between Washington and Beijing-dominated development models in an increasingly multipolar world order.

As for the regime type, I am interested in how four regime types varying in their levels of democracy may react differently in their use of foreign finance for geographical targeting: closed autocracy, electoral autocracy, electoral democracy, and liberal democracy. Regime types may matter in distributive politics because leaders with different bases of winning coalitions may have different political behaviors.

Noting this, my research questions for this paper are: Is Chinese finance to more democratic regimes in Africa less likely to be captured by leaders for ethnic favoritism? How about the World Bank's finance? The main

contribution of my empirical study is two-fold. First, democracy may not always help prevent clientelism but may facilitate it under weak institutions. Second, domestic institutions matter more than the external conditionalities set by donors in determining the subnational distribution of foreign finance. While the World Bank's conditionality may insulate its finance from being captured by elites for ethnic favoritism to some degree, it does not have the same effects when domestic political competition increases. Under the mounting pressure of political survival, elites face a much shorter policymaking time horizon and may be willing to take more risks in manipulating foreign finance as a resource for vote-buying and credit claiming.

## DATA AND METHODOLOGY

THIS RESEARCH COMBINES A LARGE-N regression analysis and a small-N case study comparing Chinese and World Bank finance in Ethiopia and Zambia.

As for the large-N analysis, I merged two databases to test whether there is a significant difference between the geographical targeting of Chinese and World Bank finance in countries with different levels of democracy. The first dataset is the district-level data of China and World Bank-financed projects in 48 African countries between 2000 and 2012 coded by Dreher *et al.*<sup>1</sup> This panel dataset includes the total amount of Chinese and World Bank's finance in US\$ at the subnational level in each year. I use them as my key dependent variable by taking the inverse hyperbolic sine transformation of the levels of Chinese and World Bank's current finance flows. Moreover, this dataset includes a dummy variable (Coethnic district) that equals one if the ADM1-level district shares the same ethnic origin as the country's leader at the time. Furthermore, it also includes variables indicating preexisting regional features relevant to the likelihood that a district may receive development finance. A district is more likely to get foreign-financed projects if it is urban, resource-rich, populous, and has already developed some transportation infrastructure.

I measure each of the 48 African countries' level of democracy and corruption activities using the second database: The Varieties of Democracy (V-Dem) index.<sup>2</sup> The V-Dem data constructs a set of indexes to measure the components of democracy, particularly the five

high-level principles of democracy: electoral, liberal, participatory, deliberative, and egalitarian. I include a categorical variable aggregated through the electoral and liberal democracy indexes: regimes of the world (RoW). The RoW equals zero for closed autocracy, one for electoral autocracy, two for electoral democracy, and three for liberal democracy.

To test whether the geographical targeting of Chinese and World Bank's finance is different in African countries with different regime types, I interacted the dummy variable coethnic and the categorical variable RoW, which captures the difference between coethnic and non-coethnic regions in the difference between different regime types.

After my large-N regression analysis, I use Zambia and Ethiopia as case studies to elaborate on the relationship between political competition and ethnic favoritism in the distribution of development finance. Given that the presidential election marks the peak of each country's political competition, I focus on the distribution of Chinese and the World Bank's grants and loans at the subnational level during two presidential election periods in each country. Because the lion share of Chinese finance and loans to Ethiopia and Zambia is in the 2010s, I chose Zambia's 2011, 2015, and 2016 presidential elections and Ethiopia's House of People's Representatives elections in 2010 and 2015.

Using the SAIS-CARI China-Africa Loan database and the World Bank project database, I constructed a novel database that records the number of loans and grants each of the 10 Zambian provinces and the 11 Ethiopian regions received during the selected election periods. Given that the ethnolinguistic groups in Zambia and Ethiopia are mostly distributed along with the administrative provinces or regions, I use the largest subnational administrative unit of each country as the unit of analysis.

## MAIN FINDINGS

1. Both World Bank and Chinese finance are more likely to be distributed to political leaders' coethnic regions, with the magnitude of ethnic favoritism in allocating Chinese grants and loans almost twice of the World Bank's. On average, in comparison with a non-coethnic

region, the current flow of Chinese finance to a coethnic region increases by 106 percent, while that of the World Bank's finance increases by 52 percent. This means that the World Bank's more stringent conditionality in aid disbursement may help alleviate, but not eradicate, ethnic favoritism across all regimes.

2. The more democratic a country is, the more likely that both Chinese and World Bank finance will be distributed to regions where the majority of the population shares the same ethnicity as the incumbent leaders. In comparison with coethnic regions in a closed autocracy, the amount of the World Bank's finance flows to coethnic regions in an electoral autocracy, electoral democracy, and liberal democracy receives on average increases respectively by 16.3 percent, 194.4 percent, and 255.3 percent. Similarly, in comparison with closed autocracy, the amount of Chinese finance flowing to coethnic regions in electoral autocracy and liberal democracy increases respectively by 137 percent and 321 percent.
3. In Zambia's case, the spikes in the total amount of Chinese finance inflow to Zambia are roughly aligned with the timing of presidential elections in 2006, 2008, 2011, 2015, and 2016. Regarding the World Bank's finance, the peak inflow years are less synchronized with the election year than Chinese finance but still show a significant increase in the 2008, 2011, and 2015 election years.
4. During Zambia's presidential elections in 2014 and 2015, when the winning margin of the incumbent party against the biggest opposition party was only 1.7 percent and 2.7 percent of the total vote, most of the Chinese finance was allocated to Lusaka, the Copperbelt, Muchinga, and Luapula provinces. These provinces are dominated by the Bemba and Nyanja-speaking population, the ethnolinguistic strongholds supporting the Popular Front's rule. Similarly,

the World Bank's finance to Zambia was mostly directed to provinces where Bemba and Nyanja-speaking groups represent a significant share of the population.

5. Regarding Ethiopia, the variation of annual Chinese and World Bank finance inflow does not show much alignment with the election cycles, and a breakdown of the subnational allocation of finance also does not show clear signs that the Tigray region, the coethnic region of the political leader, received substantially more development finance. In contrast, most subnational allocation of Chinese and World Bank finance during Ethiopia's election years are in Addis Ababa and areas that are defined as potential candidates for the Ethiopian People's Revolutionary Democratic Front (EPRDF)'s national structural transformation and industrialization plans.
6. This marks a stark contrast with multi-party Zambia, where political competition feeds clientelism. Given a lack of political competition from the opposition party, the EPRDF's legitimacy was built on a developmental goal that Ethiopia would escape the poverty trap and achieve industrial transformation. As a result, unlike Zambian leaders who must focus on securing political survival in the short run, EPRDF leaders can develop a relatively long-term horizon that centralizes rents at a national level.

## POLICY RECOMMENDATIONS

1. When deciding how and where to spend their money, donors should be aware that they cannot control how domestic political elites will allocate development finance at a subnational level. Even though the World Bank attaches strict conditionality with its development finance, this does not eradicate ethnic favoritism. This further corroborates the existence of an accountability gap in foreign finance allocation. This gap is caused by the fact that development finance agencies only

exist to mediate the lack of direct accountability between the recipients and the donor-taxpayers. The public in donor nations have little incentive to learn where their money is spent abroad because this information is too costly.

2. Donors may consider directly corroborating with local non-governmental organizations in implementing their projects. However, this may only apply to World Bank's loans that focus largely on service delivery. In contrast, Chinese finance is concentrated in large-scale infrastructure construction, which relies on the central government coordination and local governmental apparatus to implement the projects. The nature of China-financed projects makes them difficult to be implemented in a decentralized and bottom-up manner.
3. Donors should not distribute their finance only based on regime type. The more democratic regimes in Africa do not necessarily distribute development finance in a more equitable way than their autocratic counterparts. The political competition in many African countries still follows a winner-take-all logic, with state resources often being captured by the incumbent elites for their political survival. The

widespread competitive clientelism means that multiparty politics create more incentives for the distribution of patronage and strengthens the existing ethnic favoritism. ★

## ENDNOTES

1. Axel Dreher, Andreas Fuchs, Roland Hodler, Bradley C. Parks, Paul A. Raschky and Michael J. Tierney, "African leaders and the geography of China's foreign assistance," *Journal of Development Economics* 140, (September 2019)
2. Retrieve the Varieties of Democracy (V-Dem) project at <https://www.v-dem.net/en/>.

## AUTHOR

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Support for this working paper was provided by a grant from Carnegie Corporation of New York. Carnegie Corporation of New York is a philanthropic foundation created by Andrew Carnegie in 1911 to do "real and permanent good in this world."

