

THE POLITICAL ECONOMY OF MULTILATERAL LENDING TO EUROPEAN REGIONS

Zareh Asatryan* Annika Havlik*

*ZEW Mannheim

*University of Mannheim

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This version: December 20, 2018

Abstract

We study the political economy of allocation decisions within a major state investment bank. Our focus is the European Investment Bank (EIB) – “The Bank of the EU” – which is the largest multilateral lending institution in the world. We use administrative data on all EIB project loans aggregated at the level of European regions. We exploit information on the regions of origin of about 500 national representatives at the EIB’s Board of Directors since 1959 – the decisive body for loan approvals – and show that upon appointment the probability to send back a loan to their region of origin increases by 14-19 percentage points on the extensive margin. We find evidence that this effect is driven by favoritism rather than an information advantage they have about their regions of origin.

JEL codes: D72, F53, G2

Keywords: Political economy of international organizations, Regional favoritism, European Investment Bank, European Union.

*We thank Hristos Doucouliagos, Frederik Eidam, Mariana Lopes da Fonseca, Kai Gehring, Giorgio Gulino, Jerg Gutmann, Friedrich Heinemann, Martin Heipertz, Jonas Tallberg, Maximilian von Ehrlich, and seminar participants at the EPCS conference 2017, ZEW Public Finance conference 2017, Verein für Socialpolitik conference 2017, Ariel Conference on Political Economy of Public Policy 2017, MaTax conference 2017, NTA conference 2017, ifo Dresden Workshop on Political Economy 2017, EconPol PhD Workshop 2018 and the Political Economy of International Organizations conference 2018 for valuable comments. René Bernard, Immanuel Feld, Joëlle Saey-Volkcrick and Marcel Wieting have provided excellent research assistance. We also thank the European Investment Bank for their support in using the data.

E-mail addresses: asatryan@zew.de, annika.havlik@zew.de