

THE POLITICAL ECONOMY OF MULTILATERAL LENDING TO EUROPEAN REGIONS

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Abstract

We study the politics of allocation decisions within a major multilateral lending institution. Our focus is the European Investment Bank (EIB) – “The Bank of EU” – which is the largest multilateral lending institution in the world. We use administrative data on all EIB project loans aggregated to 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 15-17 percentage points on the extensive margin and that this is driven through favoritism rather than an information channel.

JEL codes: D72, F4, O4

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

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