

Thesis title: “Flowing under the radar: micro evidence of official lending”

Chapter title: “Political determinants of subnational European aid”

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#### Abstract:

This paper introduces the first geocoded dataset of ODA bilateral project aid from 18 main European donors and uses it to evaluate the presence of political distortions in their allocation. Using a Named Entity Recognition algorithm on project titles and descriptions from the OECD Creditor Reporting System, I extract 533,191 unique project locations based on 433,000 projects. I use these projects to construct a dyadic donor country - recipient region year panel of 2,486 ADM1 between 1973 and 2020. Using data on the birthplace of effective leaders in a country (Dreher et al. 2019), I then rely on variation over time to estimate the effect of a leader being in power on the allocation of aid projects to their birth region. Together with binary variables for the years prior to and after the political leader’s term in office, this approach allows us to estimate causal effects. I find that political leaders’ birth regions face, on average, a higher probability of receiving more ODA projects from European donors in the years when they hold power compared to what the same region receives at other times. On the other hand, when allocating financial flows donors decide to give less to leaders’ birth regions, arguably anticipating that these resources would be dissipated. To explore channels through which these distortions may occur, I utilize information on the aid implementing agencies. I find that when aid is channeled through donor public entities (both local and national) projects are less subject to political capture. The opposite occurs for aid channeled through recipient public entities. Interestingly, aid delivered through either NGOs or multilateral organizations seem also more prone to political capture. Finally, I find that aid either channeled through research institutions or private actors are not sensitive to this political distortion.