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BIASED TERRITORIAL DISTRIBUTION OF THE STRUCTURAL FUNDS IN EAST CENTRAL EUROPE

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Abstract

One of the main goals of the EU's Structural Funds is to decrease internal regional disparities in the EU member states, or, in other words, to enhance internal convergence. At the same time, the funds are also expected to narrow the development gap between the relatively poor and the wealthier countries, or, to put it differently, to contribute to external convergence. These objectives are especially relevant for the Eastern European members which rank below the EU average in terms of GDP per capita and also have to face high internal territorial disparities. Accordingly, the paper makes an inquiry into the territorial distribution of the 2007-2013 Structural Funds in East Central Europe (ECE) and seeks to identify those key factors that may have determined which localities and regions benefit the most from the funds.

Conceptually, the paper draws both on the absorption literature and on the literature on pork barrel politics. The former suggests that more developed regions and localities and those with higher institutional quality are likely to absorb more development funds while the latter argues that distributive policies often involve political manipulation. The paper therefore expects that both an economic and a political bias characterize the distribution of EU grants in ECE, which, as the paper shows, are contrary to the goal of internal convergence.

First, the paper argues that the source of economic bias is in the nearly uniform fund eligibility of the ECE regions which does not allow for a sufficient differentiation between the relatively more and the less prosperous areas. The fund eligibility criteria are determined according to a European benchmark that does not account for the internal development positions of the regions. In these circumstances, competition for EU funds may benefit the wealthier regions and localities which possess superior fund absorption capacities relative to backward areas. Second, the paper expects that the political bias in fund distribution may be the consequence of the highly centralized fund management systems in ECE which involve that the central governments' political preferences may influence funding decisions.

The hypotheses are tested on two country cases, Poland and Hungary, which are among the top beneficiaries of the Structural Funds in ECE but their domestic institutional environment differ to a certain extent: while the territorial administrative system in Hungary is strongly centralized, in Poland the regional governments possess notable decision-making powers. Moreover, the Polish units of local government, which in the case of rural settlements are usually composed of a group of localities, are far bigger both in terms of size and population than the municipalities in the highly fragmented Hungarian system where each settlement is a separate local

government. In spite of these differences, the two countries share several common institutional mechanisms for distributing Structural Funds.

The paper employs a dependent variable that refers to the level of municipalities and it is operationalized as the total amount of EU grants per capita spent within the boundaries of a locality in the 2007-2013 funding period. By applying advanced quantitative techniques (hierarchical linear models for the Polish and multi-level Tobit models for the Hungarian data), the paper simultaneously tests the effects of both local and regional socio-economic and political factors on the territorial distribution of the funds.

The empirical analysis finds strong evidence for both an economic and a political bias in fund distribution. On the one hand, the results reveal that, all else being the same, in both countries the wealthier localities have, on average, secured more funds relative to the poorer ones. Although to a lesser extent, this also applies to the regional level: the less prosperous regions did not enjoy a clear advantage over the more advanced ones. In both countries the most backward regions did not secure significantly more funds than the most developed ones. On the other hand, both in Poland and Hungary political loyalty towards the central government has been positively associated with the per capita amount of Structural Funds. However, this effect is stronger in Hungary where both local (partisanship of the local government leader) and regional political factors (partisanship of the parliamentary representative elected in a Single Mandate District and the regional vote share of the governing parties) show a strong and significant positive association with the dependent variable. Conversely, in Poland only the local popularity of the Civic Platform, the major coalition party is positively associated with the amount of EU grants.

Based on these findings the paper concludes that the Structural Funds have failed to promote internal convergence in ECE as the most backward localities and regions did not secure significantly more funds than the most prosperous ones. Instead, the results strongly suggest that the funds have contributed to rising intra-regional disparities and failed to reduce inter-regional development gaps. At the same time, the paper does not supply sufficient evidence which would suggest that the policy has not delivered on the goal of external convergence. Instead, the findings reveal that the current institutional background of the Cohesion Policy in ECE does not allow for the simultaneous pursuit of both internal and external convergence.

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