

Biased Territorial Distribution of the Structural Funds in East Central Europe

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Background and research question

Assumption of EU Structural and Cohesion Funds:

Funds spent in less advanced areas generate economic growth there

Implicit assumption:

more funds spent in a backward region → faster economic catch-up

But even if this is the case, are EU funds indeed spent in the least prosperous regions in East Central Europe (ECE)?

RQ 1: What regions and localities have benefited from EU funds in ECE in the 2007-2013 funding period?

RQ 2: What are the determinants of the territorial distribution of EU funds in ECE?

Where was the money spent (and why there)?

Potential determinants of the territorial distribution of EU funds

Territorial distribution of EU funds may depend on:

- Level of fund eligibility (Objective 1 vs. 2 or Convergence vs. Competitiveness and Employment Regions)
- Type of territorial administrative system (federal vs. unitary)
- Absorption capacity (regional and local economic and institutional characteristics)
- Past records of fund absorption
- Political factors – political manipulation with the funds (“pork barrel politics”)

Expectations about fund distribution in ECE

- **economic bias:**

More advanced places secure more funds

Why?

co-financing requirements + uniform fund eligibility of regions + political goal of spending every available euro
→ favourable for those locations that are better off (have higher absorption capacity)

- **political bias:**

fund distribution may reflect the incumbent's political preferences → funds may be exposed to political manipulation

Selected country cases

	Hungary	Poland
Total EU fund allocation in 2007-2013 (incl. Cohesion Fund)	25.3 billion EUR (≈ 2475 EUR/cap.)	67.3 billion EUR (≈ 1710 EUR/cap.)
Regional tier of administration	19 counties (NUTS 3)	16 voivodships (NUTS 2)
Local tier of administration	3151 helyi önkormányzat* (avg. population: 2690 inhabitants in 2007)	2478 gmina (avg. population: 15,382 inhabitants in 2007)
Territorial administrative system	Highly centralized	Decentralized (certain powers delegated to the voivodships)
Fund management system	Highly centralized	Limited decentralization

* without Budapest

Condition for economic bias: nearly uniform fund eligibility in 2007-2013

Convergence and Competitiveness Objectives 2007-13



Convergence Objective 2007-13



Dependent variable (DV): total EU grants per capita spent within a locality (*gmina* / *helyi önkormányzat*) in 2007-2013

Important: **funds are calculated based on project location** (where the funded projects were realized) and not by recipients of the funds (beneficiaries)!

DV reflects changes in central government after elections → models are estimated on 3 DVs

Country	DV: EU funds contracted in	Number of projects	Governing coalition	Source of data
Poland	2007 – Apr 2014	101,529 (location identified at the <i>gmina</i> level)	Civic Platform (PO) – Polish People’s Party (PSL)	Portal Fundusze Europejskich (www.funduszeuropejskie.gov.pl)
Hungary (I)	2007 – May 2010	18,368 (location identified at the local gvt. level)	Hungarian Socialist Party (MSZP) – Alliance of Free Democrats (SZDSZ)	Department for Monitoring and Evaluation, Prime Minister’s Office
Hungary (II)	Jun 2010 – Jun 2014	45,328 (location identified at the local gvt. level)	FIDESZ Hungarian Civic Alliance (FIDESZ)	Department for Monitoring and Evaluation, Prime Minister’s Office

Explanatory variables

Local level (gmina and helyi önkormányzat)	Regional level (16 voivodships and 19 counties)
local gvt. own budget and tax revenue per cap.; private companies per cap. ^a	GDP per capita ^a
level of unemployment ^a	level of unemployment ^a
presence of NGOs ^a	vote share of the governing parties at the last elections (only Hungary, 2006 & 2010)
local government's population size ^a	seat share of the governing parties in the regional councils (only Poland, 2006 & 2010)
vote share of governing parties at the last elections ^b	regional quality of government index (only Poland) ^d
partisanship of local government mayor ^c	party affiliation of parliamentary representative of the single mandate district (only Hungary, 2006)

^a Hungary: 2007 & 2010; Poland: 2007

^b Hungary: 2006 & 2010; Poland: 2007 & 2011

^c Hungary: 2006 & 2010; Poland: 2006 & 2010

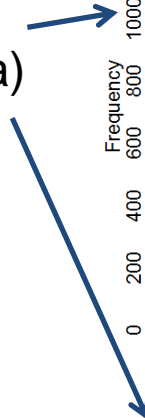
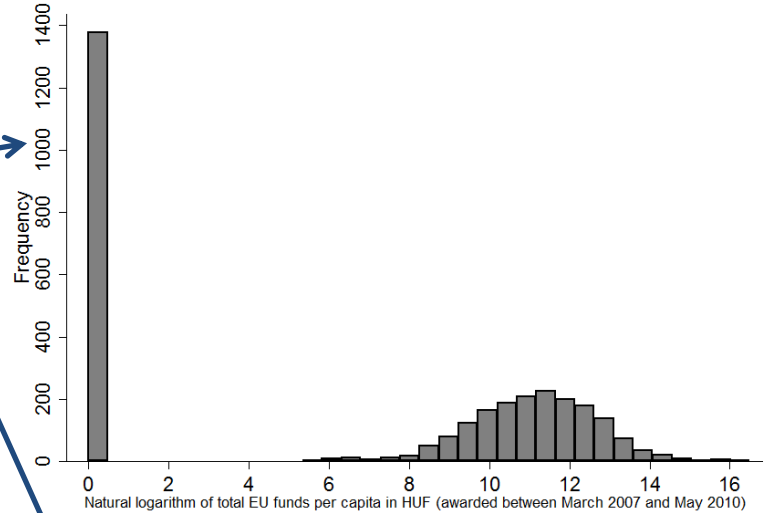
^d source: Charron, N., Dijkstra L., and Laupente V. 2014. Regional Governance Matters: Quality of Government within European Union Member States. Regional Studies 48(1): 68-90

Estimation techniques:

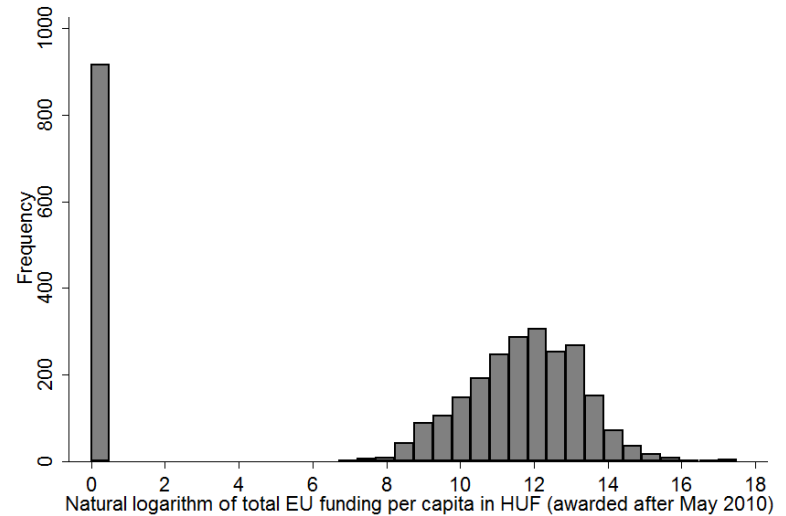
Multi-level Tobit models (Hungarian data)

Hierarchical linear models (Polish data)

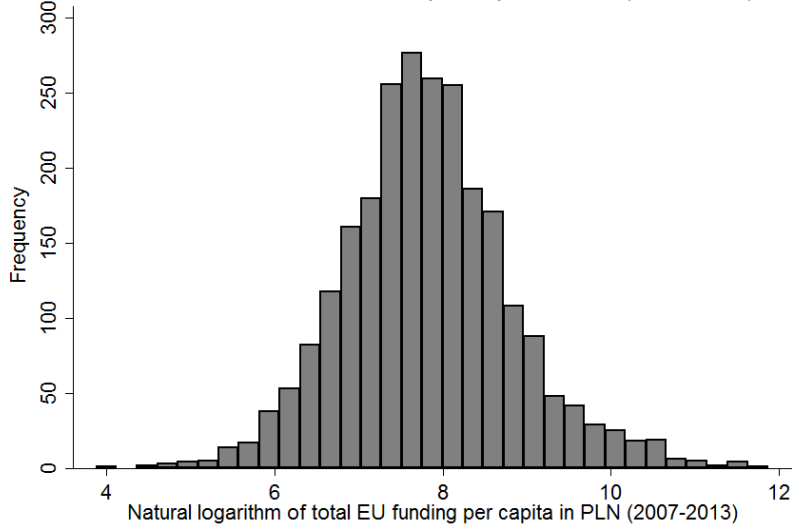
Distribution of total EU funds per capita in HUF (March 2007 - May 2010)



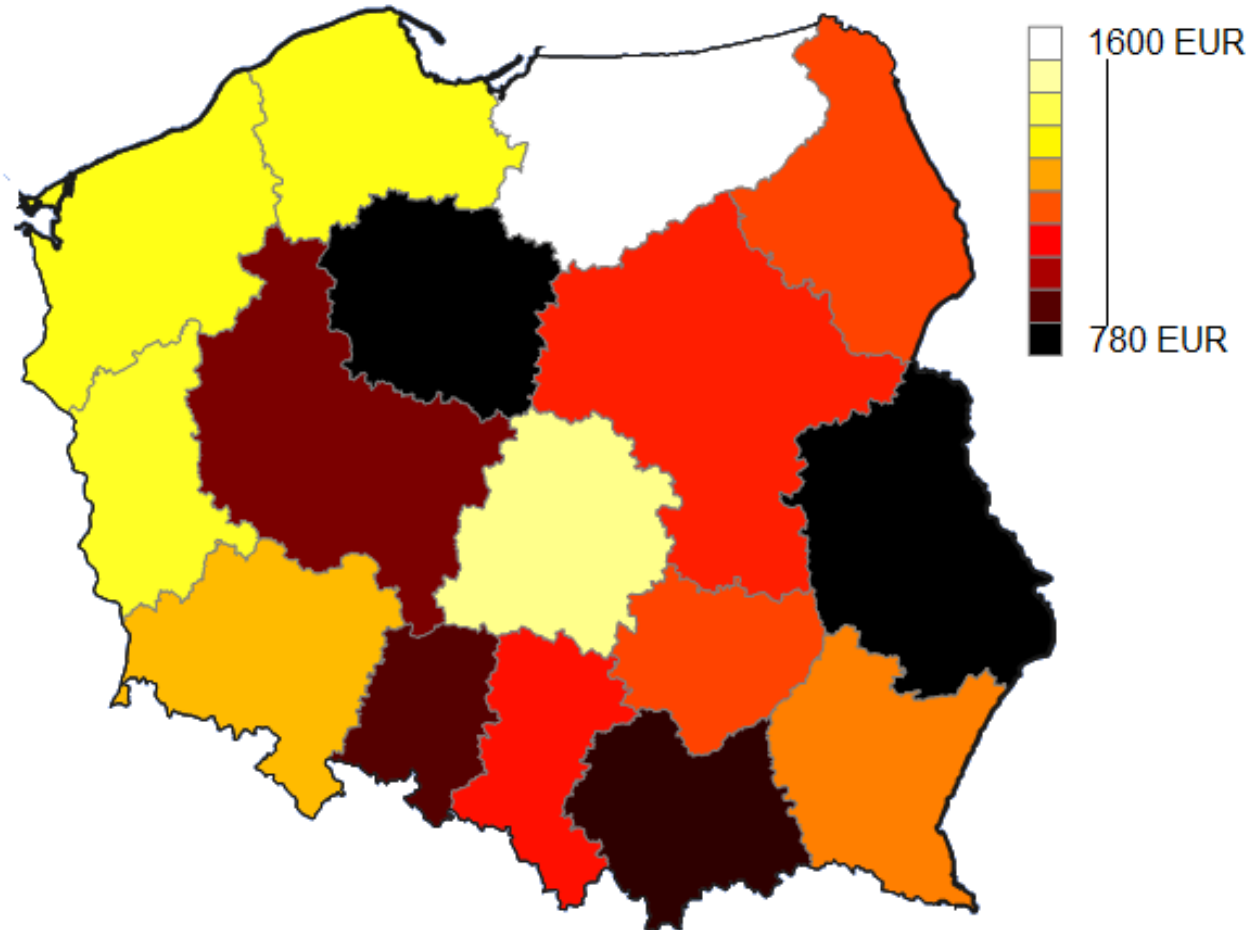
Distribution of total EU funds per capita in HUF (awarded after May 2010)



Distribution of total EU funds per capita in PLN (2007-2013)

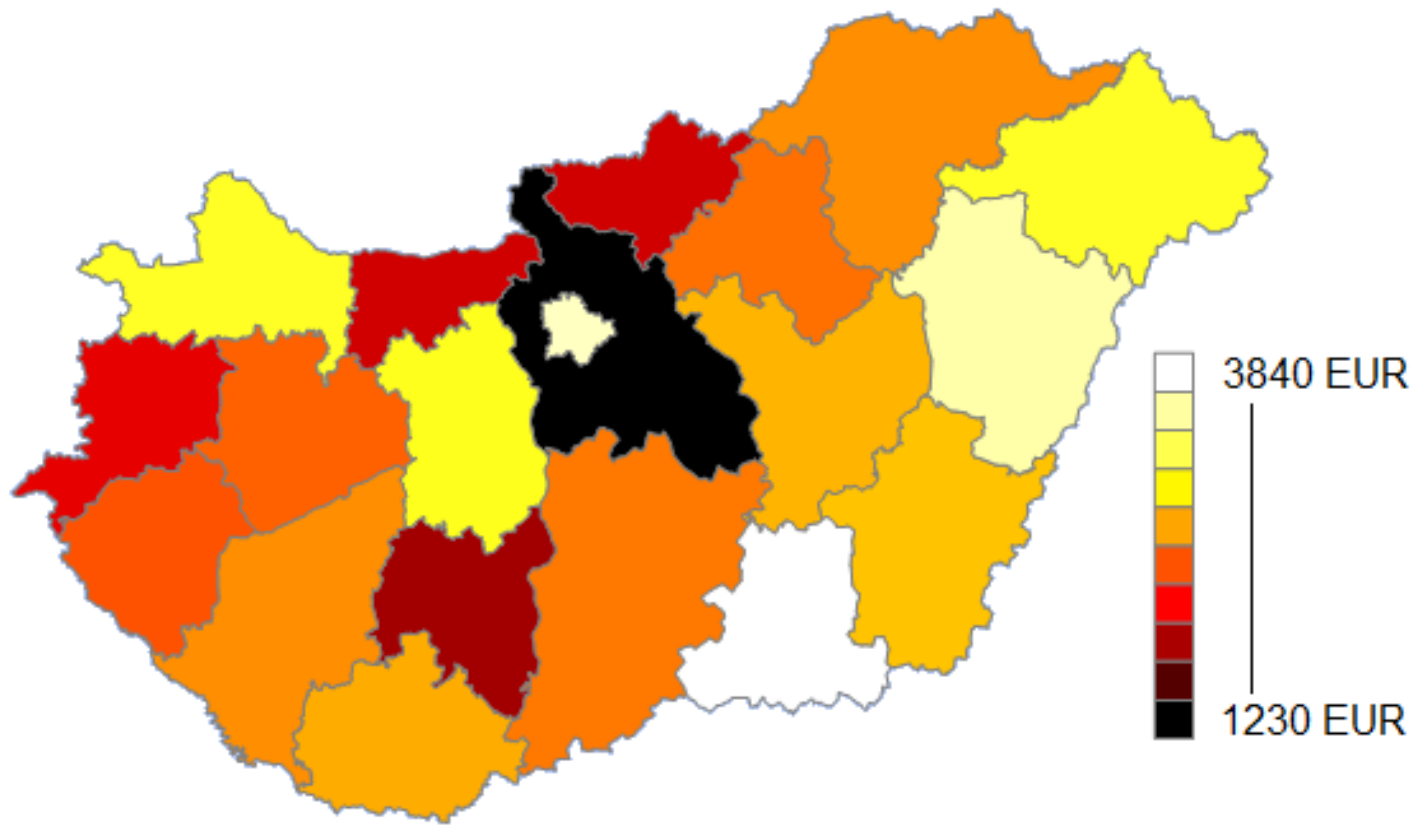


Total EU funds per capita spent at the regional level in Poland (2007-2013)

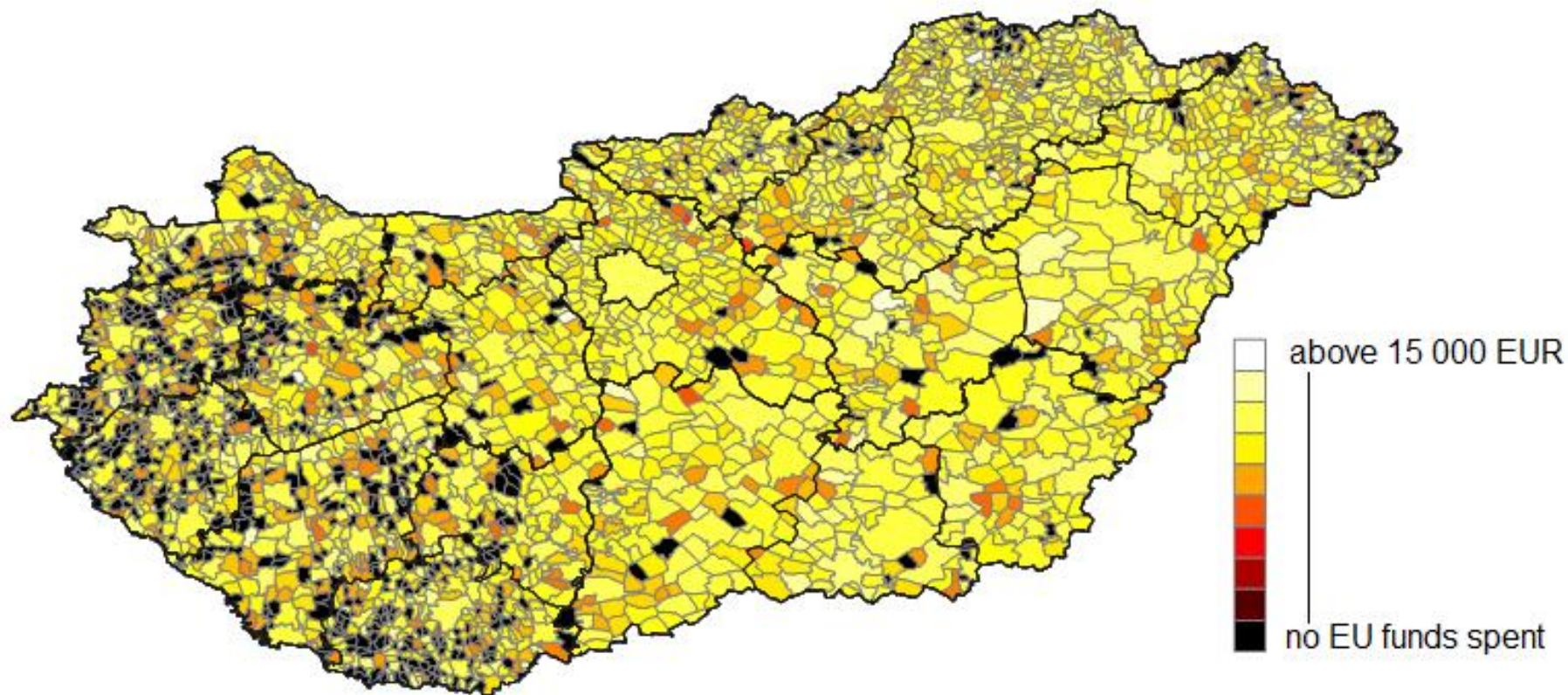


source: author

Total EU funds per capita spent at the regional level in Hungary (2007-2013)



Total EU funds per capita spent at the municipal level in Hungary (2007-2013)



source: author

Results of the regression models

	Poland	Hungary
Local level determinants		
Tax revenue	+	+
Density of private companies	+	+
Unemployment	-	-
Population	+	+
Vote share of Civic Platform (PO) in 2007 & 2011	+	
Partisan mayor in small local government		+
Mayor is also Fidesz MP (after 2010)		+
Regional level determinants		
GDP per capita	+	-
Unemployment	+	+
MSZP-SZDSZ vote share in 2006 (funds bef. 2010)		+
Fidesz vote share in 2010 (funds after 2010)		-

Conclusions

Evidence for **economic bias** in fund distribution:

- Level of local affluence and size of population are positively associated with EU funds (may contribute to rising intra-regional inequality) in both countries
- Regional-level economic factors partially mitigate the local economic effects especially in Hungary

Evidence for **political bias** in fund distribution:

- Local vote share of Civic Platform (reached either in the 2007 or 2011 parliamentary elections) is positively associated with EU funds
- Regional vote share of the governing parties in Hungary is significantly related to the amount of EU funds (during the term of socialists: positive association, during Fidesz: negative association)
- in small (lowly populated) local governments partisanship of local leaders is positively associated with EU funds in Hungary

Thank you for your attention!

Comments are welcome!

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