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EFFECTS OF EU-FUNDS ON TERRITORIAL COHESION - PUBLIC AND PRIVATE RESOURCES FOR REGIONAL DEVELOPMENT IN THE LEAST-DEVELOPED, MOST DEPRIVED MICRO-REGIONS OF HUNGARY

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Abstract

The trade-off, limits and problems of double-orientation of development policy today - i.e. the goal of regional convergence and the growth and effectiveness-oriented economic development policy – are challenging throughout the world. Results of New Economic Geography (Krugman 1991, Fujita et al 2001, Puga 2002) underline such trade-off, but even within the EU and in different policy areas there are mixed goals: e.g. the changing Cohesion Policy versus EU2020 and Lisbon goals of competitiveness and employment.

As for Hungary, an external convergence – internal divergence (increasing territorial inequalities) process is happening since the EU accession of the country – that lead Hungarian development policy consider dinamization of least developed areas also an important goal. However, due to the above mentioned duality of development policy and the structural problems caused by the economic and financial crisis at present regional development policy in Hungary is secondary to other economic policy goals, national budgetary resources have shrunk or completely disappeared. Regional development or territorial cohesion is entirely financed from EU resources in Hungary today. It is acknowledged that these micro-regions **are characterized by not only low economic performance, lack of employment opportunities, social problems (low standards of living, outmigration of educated population) but also with weak absorption capacities for development funds**. Recognizing these problems from 2009-10 there was a special program within EU funded development policy targeting the 33 least developed micro-regions. The primary tools of **territorial focusing** were eligibility criteria and criteria for extra points, in addition to facilitating projects (e.g. increasing funding intensity, expense eligibility criteria) in some regions. This paper is assessing the success of allocating exra-resources to these micro-regions and compares EU funding with national resources for investment as well as private investments.

Research question(s) : **what** private/public (natl. and EU) **regional development resources least developed (depressed) micro-regions (NUTS3) have access to in Hungary? What is the spatial pattern of these three different resources (private/natl./EU) ?** Have **the least developed MRs managed to absorb more EU funds due to the special program within Hungarian Cohesion policy interventions? Does this mean more development for them** – or what drives development in these areas?

In assessing the role of development policy in regional development our initial hypothesis is that available development policy funds are minor compared to private (business) investments or state budgetary resources, hence only additional role can be expected of them. Yet, in least developed, economically depressed and poor areas the private sector is very weak, barely any investments happen, thus here we can expect development policy to have a more major role in the change of development statistics as well as in the operation and transformation of their social and economic structures.

For the purposes of our analysis we build a micro-region and settlement based database of funds, which definitely represents a major new element in the literature and the policy-profession. (So far only county-wise sub-national investment data have been published by the National Statistical Office – thus earlier studies relied only on those.) We connect local municipality-wise demographic, infrastructure, economic, financial, business accounts and grants data originating from different sources: National Development Agency EMIR database on EU funds allocation, National Statistical Office T-Star data, Hungarian State Treasury's Kincsinfo on government finances, Bureau van Dijk's Amadeus database for business financial data). After tedious cleansing data is aggregated based on the 174 micro-regions structure used in Hungary since 2008, for easier comparability all financial data is deflated at end of term 2011 prices, and micro-regions ranked and classified based on the complex micro-regional development statistic created by the National Statistical Office of Hungary. The empirical analysis focuses on the 2007-2011 period, but also compares results of the 2004-2006 period (former EU budget cycle) with respect to the 33 (47) least developed micro-regions targeted by the special program and/or the 94 less-developed focused on by the national policy.

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