

**‘Let the money come in, spend it on time,
and everyone is happy.’
The path of EU regional development funding
in the Hungarian institutional system**

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The most important findings

- *Poor institutional quality in beneficiary countries undermines aid effectiveness – this assumption is examined in the context of the EU cohesion policy in Hungary*
- Resource allocation organised differently from region to region (different roles of county governments, regional experts, constituency leaders)
- Centralised distribution system, with top-down decisions
- Unequal access between municipalities (determined for example by administrative capacity and connections to the MPs and government)

What is our research about?

How do (have) local authorities access(ed) and use(ed) EU funds?

The focus is on the 2014-2020 period

- The relationship between real needs and tenders
- The actors in resource allocation
- Political favouritism, crony system
- Absorption constraints

Methods

- 24 semi-structured interviews with public procurement experts, professionals, relevant decision-makers in municipalities (12 municipalities), contractors applying for municipal public procurement, European Commission staff, professionals involved in the Managing Authority and members of county assemblies
- Fieldwork period: 2022-2023
- Grounded theory research, principles of deviant case sampling and maximum variation
- Recruitment until theoretical saturation is reached

Theoretical background

- The effectiveness of aid from abroad is a major topic in political economy (Dreher & Lohmann, 2015; Feeny, 2005; Galiani et al., 2017; Hansen & Tarp, 2001; Kosack & Tobin, 2006; Tarp, 2015)
- **The institutional quality of beneficiary countries is key – we focus on this in the context of EU cohesion policy in Hungary**
 - Poor institutional quality diminishes aid effectiveness (Boone, 1996; Dalgaard et al., 2004; Kosack, 2003; Sharma & Bhattarai, 2013), poorer institutional quality tends to be
 - associated with reduced bureaucratic capacity, which negatively affects aid absorption,
 - and increases the frequency of rent seeking, which directly affects aid effectiveness.
- Another approach – curse of aid theory – is that foreign aid can worsen the institutional quality of recipient countries (Ali et al., 2019; Askarov & Doucouliagos, 2013; Asongu, 2015; Brazys, 2016; Djankov et al., 2008; Isaksson & Kotsadam, 2018; Knack, 2001)

Results – needs and programs

- **Typically, there was a needs assessment: in most cases, the county councils assessed the needs of their municipalities at the planning stage of the operational programmes**
- Some mayors of municipalities had a decisive say in the allocation of resources during the planning process of the county council
- **Finally, many lacked a consistent philosophy behind the allocation of resources**
- Tenders with accidental contents and short deadlines
- **There was an 'over-demand' for resources from municipalities – they wanted to do everything through tendering, and were often prepared for this**
- **Most mayors spoke of projects that ultimately had to be adapted to the tenders advertised**

,You need plans in the drawer, otherwise you can't tender for anything.' /Mayor/

Results – the changing actors in resource allocation

- **The allocation of EU funds is the responsibility of national governments**
- Managing Authorities cooperate with the European Commission and organise the tendering procedures from the Hungarian side
 - These institutions were part of the National Development Agency between 2006 and 2013, after which they were part of the Prime Minister's Office, as the National Development Agency was abolished in January 2014
- There are significant differences between counties and in some cases electoral districts in terms of the actors involved in the delivery of funds to municipalities - this has changed over time in some regions
- **In some parts of the country, local MPs decide on the allocation of European and Hungarian funds**
- **In other counties, county governments - which have largely lost their former powers - continue to try to have a say in the allocation of resources and local development plans, in an attempt to gain some sort of role**
- Formally, the management of EU funds was originally the responsibility of the county councils, which some representatives have taken over

,[...] in 2012 and 2013, we had to submit our project proposals to the county government [...]. But after that, we noticed that the local MP's family business got involved in all tenders, thus he gathered stronger and stronger control over them. Actually, the MP now decides between the life and death of projects [...]. The MP acts as a kind of supervisory authority and takes it badly if anything happens without his confirmation.' /Mayor/

Results – informal relations

- Informal relations have developed, with the MP taking on the role of resource allocation
- **Development often becomes part of political campaigns**
- The county government has only a formal, approving role

,The local MP has influence. It is worth being in a good relationship with him and with the state secretaries, even at the cost of small gifts for establishing good personal relations. My family every year asks me why I make so many sausages. On the one hand, because it's a very big family, and on the other, because there are so many fucking secretaries of state!'

/Mayor/

Results – the governing party as an actor in resource allocation

- Members of Parliament, presidents of county governments are typically Fidesz-members
- **Party discipline influences many decisions, overriding local interests**
- Decisions taken at party level are passed on to county and municipal governments via the MP

,They do what is said in the castle, but the main actor is the MP, who dictates, claiming that money can be distributed only through me'. /Mayor/

Results – political favouritism

- Especially frequent where the MP has gained influence
- County governments are often involved
- **Many municipal leaders are independent from/opponents of the government – party affiliation often influences the success of tenders**

„Firstly, I wanted to believe that it would not be that bad, and did not want any trouble, but afterwards it became clear that terrible things were happening. I took part in the formation of a new party, and this was the moment when we were politically ‘executed’.” /Mayor/

Results – crony capitalism

- **When tenders were launched, it was often informally revealed who could do the work**
 - This was sometimes presented to the municipalities as a kind of relief, and often in practice it was a real relief
 - The county council also helped in the circumvention of public procurement rules
- Members of parliament can also gain influence in the allocation of resources through the networks of companies they control
- It is possible to get into the circle of friendly companies, at the price of "small favours"
- Crony firms are mainly prioritised in cases of confusing, pointless projects
- **In some regions, there is no pre-selection of contractors at all**

,The Fidesz president [of this county] is in many respects really driven by the development of the county's municipalities, but it is also important that Fidesz's preferred contractors participate in the winning projects. Public procurement in the county clearly shows that there are companies that cannot lose a public tender.'
/Representative of a county government/

Results – absorption constraints

- The level of resources mobilised and used has become a success factor at all levels of the institutional system and public administration
- **There is a widespread perception that EU funds can be used for anything**
- **Meanwhile, local government revenues have decreased**
- Short-term vision, unsustainable projects in the long term
- Developments attractive to voters
- White elephants

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Conclusions

- Ad-hoc institutional frameworks have surrounded EU funds, which vary considerably in space and time
 - Diminishing powers of municipal and county governments
 - And they were also determined by the aspirations of members of parliament
- Unequal access to resources
 - Some municipalities prepare their applications in advance (there is capacity and opportunity)
 - And some are excluded from grants for political reasons
- Short term approach
 - Projects subordinated to political objectives, campaigns (e.g. family-friendly measures)
 - Quantitative rather than qualitative approach to evaluating the use of resources

Thank you!

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