Derangement or Development? Political Economy of EU Structural Funds Allocation in New Member States- Insights from the Hungarian Case

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- Abstract –

This research is providing some insights on the interactions between political and economic aspects in Hungarian development policy and multi-level government financing mechanisms. By looking at the allocation of European Union Structural Funds (EU SF) in Hungary for 2004-2008, the project addresses if and how such development programs and financing mechanisms are influenced by *political and institutional/ administrative factors*. Taking the political economy of intergovernmental grants theoretical framework it comes up with hypotheses specially relevant for the Hungarian context.

Central government behaviour is modelled as a function of variables reflecting benevolent welfare maximiser/development policymaker intentions as well as those reflecting re-election motives. Data is thoroughly analysed in search for possible political influences, *election motivated/pork barrel type* grant allocation decisions. For checking what is affecting the chances of grant receivals (of any applicant or of local government) several Probit models have been tested with different sets of political and socio-economic control variables on a combined dataset (created from five different data sources containing socio-economic, budget and election data for all Hungarian municipalities (n=3168)). This period (starting with the country's 2004 EU Accession) spans two election cycles (2002-2006; 2006-2010) with general and local elections being held in 2006. To get more fine-tuned picture estimations are carried out on the whole database and *sub-samples by size* and *different periods pre- and post-election* too. Results show *partisanship elements* (same colour favouritism), as the Member of Parliament from a locality which is of the same political colour as the incumbent central government raises its chances for getting EU SF grants to some extent, while the same is shown in the case of mayors for certain municipality size categories. Findings also reinforce what the EU SF literature stresses - efficient usage of EU funds depends mostly on institutional conditions - since here proxies for local administrative capacity and earlier EU project experience are strongly significant and positive, adding to probabilities of successful EU SF grant receipiency. Socio-economic and need controls show a mixed picture, reflecting the conflict of efficiency vs. equity-driven policy goals of development policy today.

This study contributes to a fairly small but emerging literature on the *political economy of intergovernmental grants* and development as well as to the broadening multi-level *governance literature* and *policy research on Structural Funds* allocation. Results are in line with already more researched cohesion literature on EU15 and add the case of a new EU member CEE country Furthermore the research may inspire and inform potential comparative projects on old and new EU member states in regard to evaluating policy interventions, grant allocation mechanisms or governance issues.

Key words*:* intergovernmental transfers, EU Structural funds, electoral competition, political economy, pork-barrel politics, Hungary

JEL codes: H72, D 72, D78, E62

1. The research topic – policy puzzle and context

How do political institutions affect economic policy choices? Observation of the political economy literature (especially on intergovernmental grants and on political budget cycles) together with the first and second generation of the fiscal federalism makes it obvious that indeed there are challenges to democratic governance: institutional, political and other factors do interfere with decision-making and can increase the chances for inefficient policy outcomes. *Infrastructure* investment finances - at all levels of government – are *especially prone to* the effects of *political considerations* (bargaining, lobbying, election cycles and corruption[1]) due to high visibility, high expenditures, involvement of public procurement, lobbying by special interests, possible control by politicians offering more transferable political capital for incumbents at next elections etc.[2] – yet they strongly affect productivity and long-run growth prospects of a country[3].

In *EU-member* countries, the financial and socio-economic consequences of transfers to poorer regions dominate much of the political and professional debates for various reasons. It is a striking fact that in the history of EU every single enlargement had eventually brought an increase in the amount of resources devoted to regional policies[4]. Thus it is not by chance that the *issue of* effective and efficient *absorption* of these large funds[5] has come to the forefront in European policy talks. *Structural Funds* transfers (amounting to about 1/3 of the EU Budget) are originally designed to increase economic and social cohesion among EU Member States, via enhancing a fast catch-up process of the less developed. Some cautious critics question the effective and productive absorption of these substantial amounts of fiscal transfers, primarily based on the former EU15 Cohesion Countries experience of problems, where empirical analyses proved political factors have had significant influence in funds allocation.[6]. These doubts can be extended to the new EU member states in CEE precisely due to their various structural, institutional and administrative legacies and problems – as some evidence from the 2004-2006 cycle of SF allocation shows (Pires, 2001, Csite, 2006). Although some countries receive a significant share of their GDP as transfers, formal EU evaluation practice is rather input-oriented, cares mostly about spending efficiency in light of budget allocation

[1] E.g. among others Cadot et al., 2002 write about the role of *powerful lobby groups* in allocation of infrastructure grants.

[2] e.g. Cadot et al, 1999, Romp and de Haan 2005 etc.

[3] Though the magnitude of estimated elasticity of capital spent on infrastructure or the direction of causality (i.e. from infrastructure to output or from output to infrastructure) and appropriate empirical methodology is constantly debated in the so called 'infrastructure-debate' since the influential paper series by Aschauer (1988,1989) - see e.g. Gramlich,1994 for an overview.

[4] Not surprisingly, it is quite a popular view among many critics that the ever increasing structural transfers are in fact results of a *political bargaining game*, where poorer newcomer countries and less developed regions are 'bribed' for joining/staying in the common market, which on the other hand provides more scale-advantages for the larger, more affluent member states. Hence Structural Funds are viewed as serving solely redistribution purposes, while having very little to do with fostering economic growth (among many, see e.g. Boldrin-Canova, 2001).

[5] According to a 2009 summary report by the Ministry of Finance of Hungary funds of EU-origin in the Hungarian budget have grown significantly between 2004-2009, to more than eight times larger: they were 91,9 bn HUF (EUR 340 million) in the year of membership start (2004) while 778,9 billion HUF (2.88 billion EUR) in 2009. And even from 2008 to 2009 they more than doubled, EU resources in the Hungarian budget have grown from 379,2 bn HUF to 778,9 bn HUF.

[6] In Portugal EU funded public investments disproportionately favored Lisbon and the southern territories, where the majority of voters was loyal to the governing coalition. However according to De la Fuente and Vives (1995) there were no such effects present in Spain.

plans. This approach, however, does not capture *the usefulness of the disbursed funds from an economic or social point of view*.[7]
Staying within the assumption that it is worthwhile to give transfers to foster economic development one should focus on investigating the problems that might lower (hopefully not fully diminish) the efficiency and effectiveness of these transfers. Here not only features of actual grant-administering institutions matter, but those of economic structure, e.g. openness, transparency and general soundness of economic policy, characteristics of the political and electoral system, degree of corruption and the *space allowed for political maneuvering*, rent-seeking by these, etc. This research is one attempt to shed some light on the latter, taking the case of a CEE new member state.
Here only one example is brought to highlight issues researched in this article: it is highly visible from the success ratios of applications for EU Structural Funds grants in Hungary (Table 1 below) that while overall in 2004-2009 24% of applications was eventually supported, in election year 2006 this ratio has doubled to 48%, i..e. almost half of applications got funding. Not only more applications were successful in election year, but also higher portions of the required amounts were granted and paid. Both the success ratio and the percentage of paid/required funding is strikingly high in the case of local government applications – compared to the average 19% success ratio for the whole 5 year period in election year 73% of their projects got funding, while in contrast to their overall 5% paid/required amount ratio in the election year LGs received 35% of the funds they had asked for in their project applications.

Table 1 EU SFgrants in Hungary 2004-2009 application and success ratios

	No. of applications	No. of supported appl.	% supported		Required EU SF grant amount (mn EUR)	Paid amount (mn EUR)	% of paid/required amount	
			all	2006			all	2006
All	**61821**	**14860**	**24**	**47,8**	**18 881,60**	**3966,635**	**21,0**	**33,8**
Local governments	7464	1444	19	72,9	3 351,29	167,2521	5,0	34,7
LGs from Regional Operative Program	5376	871	16	0,0	1 704,96	102,7986	6,0	0,0
SMEs	299921	12107	4	38,8	2 760,71	657,5017	23,8	31,3
Big companies	983	457	46	56,5	3 517,91	527,1379	15,0	35,8
LHH (special program for least developed small regions)	6667	2472	37	56,3	1 325,11	272,5756	20,6	43,6
Budapest (capital)	12133	5142	42	37,3	5 172,10	1402,582	27,1	36,7

Source: National Development Agency, Hungary - own calculations

The paper is structured as follows: the next section provides a brief review of relevant political economy literature, then a brief institutional background on Hungary is provided, followed by the sections on research design, data and methods, major results and then concluding notes with some policy relevance.

2. Literature review

[7] Several research findings in the literature support this presumption and suggest a broader definition of absorption (Hervé-Holzmann,1998), which takes the original granting goals (growth or convergence, cohesion) also into account.

Political economy of inter-governmental grants

Intergovernmental grant policy is thoroughly discussed in the mainstream fiscal federalism literature, originally as a sub-field of public economics (e.g. Oates 1991 provides a nice summary, or Shah 2005, Gramlich 1977, etc.). Empirical literature[8] shows that variations in intergovernmental transfers (including infrastructure related ones) to sub-national entities within countries cannot be simply explained without *political variables* representing *electoral incentives* –coming to a conclusion that *grants are indeed determined/influenced to some extent by the political game (*see footnote2,3 too*)* Clearly *more flexible formulas or conditional grants* (which infrastructure grants usually are) allow *a more discretionary distribution* and even a strategic use of resources by political parties, e.g. for the purposes of reelection or other political interests (Johansson,2003).

For this research, however, the *political economy approach to grants* gives more insights (e.g. Drazen 2002, Persson-Tabellini 2000) where instead of the traditional efficiency versus equity tradeoff, focus and emphasis is directed to political factors: it is supposed that decision makers' behavior is mainly/partly determined by re-election prospects and other self-interested goals, results of collective decision making mechanisms, such as vote trading, legislative bargaining etc become driving forces - thus they view intergovernmental grants as means for providing direct political benefits (e.g. Inman, 1987, Grossman 1994, Inman-Rubinfeld 1997, Dixit-Londregan 1996, Worthington-Dollery 1998). Here g*rants* are acknowledged to *provide more direct political benefits* to the recipient government politicians, as they allow them to expand on vote-generating *visible expenditure items* (such as infrastructure) *without the pain of additional taxation*, however in exchange they deliver political capital/votes of supporters and of interest group for the higher level government and its ruling party too.'Pork barrel'type programs also often serve the purpose of electoral competition among political parties through „vote-buying". [9] By now, there are several *empirical papers* (Worthington-Dollery 1998, Porto-Sanguinetti 2001, Johannson 2003, Khemani 2004, Feld-Schaltegger 2005, Veiga-Pinho, 2007) that take such political economy view on grants on different countries, time periods using different research designs and estimation techniques – which helped formulating hypotheses for this research.

Political Budget Cycles

Elections are meant to make officeholders accountable to the community. Barro (1973) was one of the early papers in modern economics formally dealing with the issue of how re-election chances can induce an incumbent to change his actions, though his assumption of a „representative voter" limits its applicability. Models that deal with economic cycles induced by the political cycle are called political business cycle (PBC) models. Although sometimes used interchangeably with political business cycle, originally the term *political* ***budget*** *cycle* referred specifically to a periodic, regular

[8] Wright, 1974, Wildawsky, 1984, Inman-Rubinfeld,1997, Dixit-Londregan 1996, Inman, 1987, Grossman, 1994, Worthington-Dollery, 1998, Johansson, 2003, Veiga-Pinho, 2007

[9] Social scientists have studied pork barrel politics in great detail, starting with the seminal work of Ferejohn (1974) on politics of spending on river and harbor projects, Weingast 1993, Weingast, Shepsle, Johnsen 1989, Mueller, 1989, Drazen, 2002:327 etc. Persson and Tabellini (2000) offer a comprehensive review and treatment of previous literature.

fluctuation in a government's ***fiscal*** *policies* induced by the cycle of elections.[10] In *empirical* work (much less in quantity than theoretical.) *evidence is mixed*. [11]. There are two lines in the empirical predictions emerging from this perspective: one is that opportunistic politicians may be inclined to direct transfers towards their '*core supporters*', as they think this is the cheapest way to buy votes (e.g. Cox and McCubbins, 1986). The alternative view (Lindbeck and Weibull, 1987) holds that politicians take the core supporters for granted, and thus spending is allocated disproportionately towards '*swing districts'* where voters do not have a strong attachment to either the government or opposition parties. Dixit and Londregan (1996) present a general approach that incorporates both of these approaches.

Some ***institutional arrangements*** or *political and economic conditions* may make creating such cycles easier or more difficult, or more or less worthwhile. The publication of Persson and Tabellini's careful examination and claim to have "uncovered strong constitutional effects on the presence and nature of electoral cycles in *fiscal policy*" (2003: 267) provided a big stimulus to empirical research on such *cycles*. Brender and Drazen (2005) argue that until recently, a PBC was generally thought to be a phenomenon of less developed economies. Others (Alesina et al.,1997, Shi and Svensson, 2002) present evidence for the existence of a PBC in both developed and developing countries. Brender and Drazen (2005) bring the argument however, that the results of these studies are driven by the experience of so-called "new democracies", where fiscal manipulation may be effective because of the lack of experience with electoral politics in these countries[12]. They argue that once the "new democracies" are removed from the sample, the PBC disappears. Alt and Lassen (2005) focus specifically on advanced democracies and using a sample of nineteen OECD countries in the 1990's they argue that among these significant opportunistic electoral cycles are conditional *on the transparency of budget institutions*.[13] In countries with less transparent institutions, the electoral cycle in fiscal policy appears, while no such election related fiscal policy movements show up in higher-transparency countries. Furthermore, in accordance with recent moral hazard-based PBC theory, they find that electoral cycles are larger in politically more polarized countries.

There was so far little attention given in the literature to the *PBC issue with different levels of government*– by far, research mostly focused on central government behavior and macroeconomic data[14]. Sole Olle and Navarro, 2006 test effects of partisan alignment on the allocation of intergovernmental transfers (that is local government of the same

[10] Three generations of theoretical PBC models can be differentiated depending on their assumptions about politicians objectives and competencies and information assymetries around those (Nordhaus, (1975), Hibbs (1977, 1987), Rogoff and Silbert (1988) and Rogoff (1990), Persson and Tabellini (2000) and Shi and Svensson (2002), Drazen, (2002), Mink-DeHaan (2005).

[11] See e.g. Alesina, Roubini and Cohen (1997) for a detailed summary of empirical research on opportunistic models.

[12] Hallerberg et al. (2002) check if political business cycles exist in East European accession countries during the period 1990–99 and find that these governments act like their OECD counterparts. They also try to manipulate the economy before elections where possible, but the tools they use depend upon the exchange rate regime and upon the institutional framework.

[13] However DeHaan-Mink(2005) check political budget cycles in countries in the Euro Area. Using a multivariate model for the period of 1999-2004 they find strong evidence that despite the introduction of the Stability and Growth Pact, incumbent fiscal policymakers are not too much restricted in the Euro area to increase deficits for re-election purposes, though strictly for the election year, and not for the prior one.

[14] As for the local level: Blais and Nadeau (1992), Petterson Lindblom (2001) Shi and Swenson (2002a and b). Veiga (2004), Veiga and Veiga (2007) search political business cycles at the municipal level and find clear evidence for opportunistic behavior of local governments, with expenditures increasing in pre-election periods.

political color as the upper tier, central or regional, grantor governments) on Spanish data for 1993-2003. Similar paper is done by They find results suggesting that such partisan alignment has a sizeable positive effect on the amount of grants received by municipalities –a finding closely relaed to the issues researched in this paper on Hungary and EUSF allocation mechanisms .

3. Institutional background

Institutional structure, Governance of EU Structural Funds in Hungary

In Hungary the National Development Agency is the central institution for the operation of the EU tendering system, established by the government in 2006 from the National Development Office and working groups of some operational programs formerly functioning at certain ministries. Its tasks include coordination of the drafting of the national development plan, the operational programs and the action plans, approval of the invitations to tender and the framework contracts of support, as well as setting up evaluation committees laying the groundwork for the selection of developments and investments which are deemed suitable for support. The Agency manages, monitors and assesses the work of cooperating organizations carrying out the actual work of tendering, it operates the informatics system supporting the tendering system, and it bears responsibility for communicating the entire development plan and the functioning of customer service for all the operational programs. From 2007, the National Development Agency reports annually on program progress to the parliament. Cooperating organizations – doing the actual tendering. contracting and disbursement - can be organizations in majority state ownership, public foundations or companies complying with strict provisions.

The government handles strategic decisions, e.g. approval of the national development plan and its operational programs, 2 year action plans as well as submitting them to the European Commission. It also decides on support for special projects/high-value developments (typically those with a budget of over HUF 5 billion). Government is assisted by the National Development Council, a social consultative body that monitors fulfillment and harmonization of the targets, makes proposals on possible modifications and the Steering Committee for Development Policy, that is responsible for drafting development policy-related government decisions. The prime minister acts as chair of the Steering Committee, the members of which are politicians with responsibility for different sectors, fields and regions who are also chairs of the monitoring committees. The certifying authority in disbursements is the Ministry of Finance, while operational compliance and financial monitoring is done by the Government Audit Office, the State Audit Office and the inspectors of the European Commission.

Local Government system in Hungary

Due to its traditional regional development focus sub-national governments are major recipients of Structural Funds all over Europe, combined with their growing importance

in the economy as a whole (Dexia,2005). Hungarian local governments have a broad service provision responsibility, yet most of them are rather small (under 5000 and even a lot under 1000) – this way the system is a mix of large service provider Nordic and small, restricted responsibility Southern municipal traditions. The legal and financial framework established for fiscal decentralization in Hungary in 1990 set the basis for local autonomy and enables municipalities to establish local spending priorities, and to make the financing and tax decisions necessary to carry out these policies. The sources of revenue available to local governments are: own revenues; shared central taxes; and transfers and subsidies from the central government, including normative, targeted and other earmarked transfers. Own revenues include local taxes and fees, profits, dividends, rent and lease, duties, share of environmental protection fines and other revenues. The largest source of local government revenues is ***transfers*** from the central government[15], but their share has declined from an earlier 64 to the current *51-53 percent*. The share of *own revenues* has increased from 23 to 35 and then back to *30* percent in the second half of the 1990s, *shared revenues* (essentially the Personal Income Tax) have also risen, from 9 to 15 percent of the total. Taking both transfers and shared revenues into account, *roughly two-thirds of local government revenue still originates from the central government* – which curbs their financial autonomy to some extent. Hungarian local governments have legal autonomy in their operation and infrastructure spending decisions, irrespective of the source of revenues (i.e. they receive funds from different kinds of transfers but can use those freely), yet throughout the 1990s there was a significant shift from a general purpose grant allocation system toward a more rigid task financing system[16]. One positive impact of the overall tightening of public finances and the decreasing share of the public sector in GDP throughout transition is that with less central support, local governments are somewhat forced to improve both their own revenue collections and local service efficiency. Nevertheless, the frequent changes of priorities, grant sharing, normatives and targets made it quite difficult for municipalities to forecast their budgets and use sound strategic and financial planning. This has its effects on their EU funds application practice and capabilities too – often just drawn by the currently available tender calls and not by their long term goals/financially sustainable project ideas.

4. Research hypotheses and variables used

Driven by hypothesis formulated from the literature review and interviews conducted with Hungarian experts and government officials data is thoroughly analyzed in search for *election motivated funding.* Such arguments are often raised in Hungarian political

[15] The share of revenues from transfers is *high* in Hungary, even by the standard of transition countries (higher than the Baltic countries, though lower than Bulgaria, Romania and Poland). One justification given for such a large component of Hungarian local government finance coming from transfers is that *local governments are responsible for health care and education* and wages for these sectors are financed from the national budget. Thus transfers include e.g. hospital financing from the Social Security Fund, which is of a special purpose type, i.e. it cannot be spent by the municipality on any other goal.

[16] Central government can have the most direct influence over local investment activities through its own investment grant programs. Besides these, it has several important indirect effects on the environment of local investments: through current operational grants, it can influence the magnitude of the operational surplus of local governments or their credit ratings; for reasons of macroeconomic stability it can set limits to local government borrowing, and it can boost local investment borrowing by giving state guarantees or helping establishing municipal guarantee funds and last but not least it can give or withhold additional funding for their project proposals for EU Structural Funds, which are becoming the major investment financing sources in these years.

discourse, but so far no systematic empirical investigation tried to check for its validity and possible extent. My estimates are a first attempt towards this direction.[17]
Central government behavior as modeled as a function of variables reflecting benevolent (social welfare improving) intentions as well as those reflecting the central government's self interest, re-election motives. The examined period (starting with the country's 2004 EU Accession) stretches into two election cycles (2002-2006; 2006-2010) with general and local elections being held in 2002 and 2006 - national elections are always held in the spring and local elections follow a few months later the same year. [18] With respect to Hungary, the first analyses evaluating the National Development Plan I (that was covering the first EU SF cycle from 2004-2006) and its execution acknowledge that political factors played some role (Csite-Felföldi, 2006) and showed robust correlation between the electoral map of the country and the grants allocated to municipalities and micro-regions.

H1: Partisanship elements are present in EU grant allocation practice. If political color of Member of Parliament/mayor is same as central government – higher are the chances of the Local Government or any applicant from that municipality.

Political color same as central *government* variables for the *member or parliament* and the *mayor* were constructed from raw election data for the two election cycles involved. Drawn from the partisan model, I expect a positive effect of these variables on grant recipiency chances; the incumbent central government will invest more in those municipalities where the support of the local governments will ensure that this improvement will be easily capitalized in increased political support for the next elections. Election years were 2002 and 2006 – when national elections were always held in the spring and local elections followed a few months later the same year. Thus the political variables at my disposal are measured only when one election is held (at time $t=k$) and are constant until the next election (at time $t=k+4$), therefore, these are assumed as *a priori* known by the central government during the electoral mandate.

The alternative hypothesis is the swing voter idea (for which there are considerable evidences in the US) , that states that central politicians would concentrate in regions/places where the race in last elections was very close, thus any additional spending could gain more voters. Although this swing voter hypothesis does not fit multiparty and multidimensional political settings as well as it does the first-past-the-post system in the US (Kemmerling-Stephan, 2008) I test it on the Hungarian data. I use the ***closeness proxy*** that is often used in the literature (Johansson 2003, Veiga-Veiga, 2007 etc.) , i.e. the percentage difference between the winner and the second on the final list of general and local elections.[19] Another variable supposed to help capturing tight

[17] The presence of partisan elements in intergovernmental allocation decisions in Hungary was proved in the PhD research project by the author (Kalman 2007) analyzing the national local government infrastructure grant system.
[18] What makes election effects even further interesting for research inquiry is the fact that due to some scandals that questioned the credibility of the freshly re-elected socialist-liberal cabinet elected at general elections in spring 2006, the fall 2006 local elections brought a sweeping victory of the opposition (right wing FIDESZ) in most of the local governments, especially in major cities. Hence, for the first time after a long period since transition the central government and majority of mayors/local governments had opposing political colors. Effects of this situation are captured in cutting data and running regressions for different periods, and taking 2006 election results into account for years 2007-08 fund allocation data.
[19] We do not have data on the closeness of the 2002 local elections, thus only the 2006 ones are used in the analysis.

electoral race is whether the MP got elected only in the second round of elections in a given year.

H2: The closer the electoral race (more hesitant voters) was in the preceding national/ local elections - the more chances are for getting from EU grants by applicants from that municipality.

Rent seeking and/or lobbying efforts of local governments could best be checked via qualitative research methods e.g. a survey, that was out of the scope of this present research. Yet a few background interviews conducted provided some insights and gave ideas for some variables that could serve as proxies. One such candidate is a *mayor's or a member of parliament's time in office* (a similar variable was also used by Veiga-Pinho, 2007[20],. Apart from an MP's number of served terms I used a dummy for the *MP getting elected for more the one term*. Channels for such influence from lower level to higher levels must be easier if matched with partisanship.

H3: The longer the MP/mayor is in office, the more connections, network (s)he might have for influencing central govt. decisions, i.e. more powerful lobbying (s)he can exert for achieving pork-barrel type allocation goals.

Importance of project-generation and administration capacity of applicants has been stressed in the literature on EU funds absorption reinforced by my interviews (EU fund applications indeed involve heavy bureaucracy and preparations need considerable time and budget efforts) – plus this is a usual suspect for any institutional-minded analysis, hence some feasible proxies were included in the model. Heavily constrained by data availability, the ratio of local population with higher education is used to proxy for the general administering/management capacities of the municipal government and its staff. While for the years of the second EU funds cycle (2007previously successful EU project experiences are used, as it not only reflects a certain level of administrative capacity - capturing risk-taking, local effort, capability to deal with heavy bureaucratic management tasks etc, 'learning by doing', but is something to capitalize on, hence a strong candidate for predicting future success..

H4: Administrative/insitutional capacities matter in succcessful EU funds application, the more capable and experienced applicants/local governments have higher chances.

To account for the normative approach, the grant giver viewed as a *benevolent social well-being maximizer* (development policymaker in this concrete case) – certain *socioeconomic control* variables are used e.g. population, need-indicator variables such as ratio of dependent population (young, old) present infrastructure levels, education and social service levels etc[21].

H5 Chances for EU SF funding success increase with size.

H6 The more dependent population (young, old) a municipality has, the higher the chances for any applicant or the local government as applicant for receiving EU SF.

[20] I only have data on the terms served by MPs and not on mayor terns.
[21] After multicollinearity tests ratio of old and young were kept.

As growth-enhancement and job-creation can be major goals of allocation from EU SF (and indeed they are especially in the second period (2007-13) New National Devt. Plan of Hungary) the *per capita personal income tax base* of the municipality is included to control for the economic position of localities (or rather for their inhabitants, but since local governments still do receive a portion of the PIT collected at their territories, this variable is also a budget constraint one). Furthermore, one of the best proxy for the economic development level of a locality is the PITbase, as there are no official local GDP statistics, researchers' estimated local GDP levels strongly correlate the PIT variable (Csite-Nemeth,2008).[22]

H7 Applicants from better-off municipalities have higher chances for EU SF recipiency.

While the hypotheses competing with this one is that of equity, i.e. that EU SF allocation has the correction for regional disparities among its major goals and thus in fact lagging behind places have priority.

H8 Applicants from municipalities covered by the special complex program for the least developed 33 small regions (LHH) are treated beneficially, hence have higher chances for EU SF recipiency.

Yet, in today development policy there are often opposing goals and thus policy tools/grant designs used – as there is a tradeoff between equity-driven policies for lagging regions, that concentrate on poor, less developed, aging or scarcely populated areas etc. (that traditionally was the main goal for EU SF too) and those new economic geography based policies that concentrate on economic growth-enhancement, thus support faster developing hubs of the economy – e.g. following the agenda prescribed by the Lisbon goals in the EU development policy domain. Both kinds of policies are justified, have their pros and cons, especially in the case of New EU Member States where one of the effects of economic transition was a seriously widening economic and social gap between different parts of the countries. This mix of policy goals and tools are visible in the Hungarian development policy documents too, hence *expected signs for the socioeconomic controls is often unc*lear. E.g. if development policy is trying to deal with regional disparities, than 'LHH' variable (the proxy for backwardness) - refelecting a municipality's status in the special complex program for the 33 least developed small regions of Hungary within the EU funds allocation machinery - should be strongly significant and positive, moreover, size or per capita PIT base (that reflects local GDP) could be negative, as less grants would be given to the larger, more well-off places. However, if economic growth enhancement dictates giving more stimulus to exactly these kinds of hub cities, then grant recipiency chances should be positively affected by population and PITbase[23].

[22] In certain models, '*hdi*' the estimated local Human Development Index was also used to capture development level of a locality, as well as county head city status and percentage of Roma population, but eventually these were removed due to reasons of strong correlation with other explanatory variables, or in the case of county-city perfect prediction of grant success.

[23] These clashing policy goals are part of the reason why I checked allocations from the Regional Operative Program separately apart from the total operative programs, and within the ROP for any applicant or the local government itself - since if any, it is the ROP that is supposed to have traditional regional disparity/convergence focus. Yet, rumors claim some ROP allocations to be quite politically driven.

Since EU SF grants are matching in nature –additionality criteria - available local resources should be important for getting access, yet they are a source of inequity too. Moreover project-generation and application needs considerable resources too prior to succesful funding. In order to account for the budget constraint of each local government, a decentralization measure that is *percentage of own revenues* in the local government budget was used.

H9 The more own revenues a local government has, the higher its chances for successful EU SF application.

The following table summarizes the variables used in the analysis and their expected signs (Table1 of the Appendix gives summary descriptive statistics).

Table2: Variables and hypotheses used in the analysis and their expected signs

dependent vars.:		
applicant from municipality received EU funds		
applicant from municipality received EU ROP funds		
Local Government received EU funds		
Local Government received EU ROPfunds		
Explanatory vars.:		**Expected sign**
political vars.:		
MP same color as central goverment 2002	+	**H1**
mayor political color same as central government 2002	+	
MP same color as central goverment 2006	+	
mayor political color same as central government 2006	+	
closeness of 2002 parliamentary elections	-	**H2**
closeness of 2006 local elections (% diff. 1st and 2nd)	-	
closeness of 2006 parliamentary elections	-	
MP got elected in the second round of the election 2002	+	
MP got elected in the second round of the election 2006	+	
MP reelected for more than 1 term 2002	+	**H3**
MP reelected for more than 1 term 2006	+	
Number of terms Member of Parliament reelected 2006	+	
Admin. /institutional capacity		
any applicant received funds from NFT, first cycle of EU funds, 2004-06	+	**H4**
LG received funds from NFT, first cycle of EU funds, 2004-06	+	
ratio of local population with higher education	+	
Socioecon. controls		
ln population	+	**H5**
ln per capita local personal income tax base	+/-	**H7**
% of young population	+	**H6**
% of old population	+	
% of own resources in LG budget	+/-	**H9**
size indicator	-	**H5**
Munic. Belongs to special program for the least developed 33 small regions (LHH)	+	**H8**
+ year and region dummies		

5. Data and methods

A major task was getting access to and putting together the relevant and feasible dataset that suits the interests of academic inquiry. We use data on successful applicants, i.e. *funded projects* from the EMIR database of the National Development Office of Hungary, created for monitoring European funding resources.[24] This data is combined with the State Administration Office (TAH) database embracing all (n=3130) *municipal governments' budget data* (data available for up to year 2005 only) plus with demographic, social and infrastructure data from the *territorial statistical database T-Star* of the Hungarian Central Statistical Office and with general and local *election data* for elections years 2002 and 2006 from the National Elections Office of Hungary. Moreover some population and minority data from the *2001 Census* in Hungary are also used. For reasons of easier comparison across e.g. recipient municipalities, all variables are transformed to *per capita values* in the analysis. All the financial variables are shown *in thousand HUFs* and have been recalculated *at 2008 prices* using the GDP deflator. For analytical purposes, the *city of Budapest*, local governments of capital districts and counties are deliberately *left out* of the dataset, due to *their very special status* in the institutional and budgeting structure.[25] Thus the final number of local governments included in the pooled data is N=3130. After several checkups and corrections, this database handles problems from different budget structures throughout different years, hence contains same data content for all years.

As far as estimation methods are concerned, for checking what is affecting *the chances for grant receivals* I used *probability models* for a limited dependent variable *(probit).* [26] Thus the dependent variables were binary variables:

> **gotgrant_all**, if any (govt. or business, NGO) kind of applicant has received money from EU funds throughout all the years of 2004-08,
> **gotgrant_LG** if the local government has received grants across all EU SF operation programs,
> **gotgrant_ROP** if any applicant from a certain municipality has received funds from the Regional OP
> **gotgrant_LG_ROP** if the local government itself has received funds from the ROP

In binary response models, the primary interest is to explain the effects of various values of x on the response probability:

$$P(x)=p(y=1|x)= P(y=1| x_1,x_2,\ldots,x_k)$$

[24] This causes some problems for the analysis, as the group of not funded municipalities includes both those that did not even apply, and those who applied, but were not funded, yet their differentiation is not possible from these data. I choose to use probability models with binary dependent variables instead of selection models partly for this reason, as determinants of selection would be impossible to find out from these data. This is also the reason why usage of Tobit model, truncated regression was eventually decided against, as it might be different unobservables affecting the decision to apply and the selection decision.

[25] This practice is commonly followed by researchers dealing with Hungarian municipal data.

[26] Since this is a short time period (2004-2008), that means special care in handling data is needed (e.g. clear dominance of units over time periods), plus there is more than one project per year for many recipients, yet municipal financial and demographic and social data are not available for the whole period, thus creation of a panel dataset and using panel estimation techniques did not seem a reasonable as would not have enough variation over time.

Thus in a simple form the model looks at marginal effects given by the Probit estimations:

$$P(y=1|x)= \text{constant}+P+A+S+R+Z+\varepsilon$$

where

- P vector of political variables
- A vector of administrative capacity vars.
- S vector of socioeconomic controls
- R region dummies
- Z year dummies
- E error term

To get more fine-tuned picture estimations are carried out on the whole database and *sub-samples by size* - partly because it is a usual suspect with any grant program and my correlation and frequency tables reassure its importance, partly because population came out always strongly and positively significant in all base models, which further justifies such sub-sampling. In order to capture more insights on the politics, I cut the data for *different periods pre- and post-election* too, and check effect of 2002 election results on the period of 2004-05, on the election year 2006, and then the effects for the 2006 elections separately for the numbers in the period 2007-08.

To avoid the usual econometric caveats, I was very careful with variable selection and model design strongly linked to theory and economic sense, and also before making any interpretation based upon the results, I checked for the following problems and made the necessary corrections. The problem of possible multi-collinearity between different independent variables was excluded here by careful variable selection, besides which I also checked for correlations between independent variables and with dependent variables and tests have not revealed serious multicollinearity problem. For avoiding heteroscedasticity problems and also for easier comparability, I opted to use per capita figures as well as ln transformation of the population and PIT base variables. Finally, models were run by using *year* and *regional dummies* for the seven statistical (NUTS2) regions of Hungary to account for time / region specific fixed effects.

6. Results, robustness checks

Political variables – same color favoritism, especially the color of MP matters

Several models have been tested with different sets of political and socioeconomic control variables as well as year and regional dummies and also a restricted version without any political variable – Table2 presents the most important *Probit* (maximum likelihood estimations) findings [27] (while Tables 2-7 in the Appendix give all the details of different model results[28].)

[27] Though for checking robustness, estimations were also done using the Linear Probability Model (OLS) - see Greene, 2002 for suggesting that LPM estimates can be as good as probit/logit ones.

[28] For Probit estimations, marginal effects are given in the annex tables, as these have the same meaning as beta coefficients in linear regressions, i.e. a %change in the probabilities.

Table 3: Summary of major results (Probit estimation)

dependent vars.:		Model1	Model2	Model3	Model4
any applicant from municipality received EU funds					
Local Government received EU funds					
any applicant from municipality received EU ROP funds					
Local Government received EU ROPfunds					
	Expected sign				
Explanatory vars.:					
political:					
Member of Parliament same color as central goverment 2002	+	not.sign.	**++**	**+**	**+**
mayor political color same as central government 2002	+	-	-/not.sign.	not.sign.	not.sign.
MP same color as central goverment 2006	+	+	**+**	**+**	**+**
mayor political color same as central government 2006	+	+	+/not.sign.	not.sign.	not.sign.
closeness of 2002 parliamentary elections	-	*0	*0	not.sign.	not.sign.
closeness of 2006 local elections (% diff. 1st and 2nd)	-	+	+	not.sign.	not.sign.
closeness of 2006 parliamentary elections	-	not.sign.	not.sign.	*0	*0
MP got elected in the second round of the election 2002	+	*0	++	+	+
MP got elected in the second round of the election 2006	+	+	+	-	-
MP reelected for more than 1 term 2002	+	-	-	not.sign.	not.sign.
MP reelected for more than 1 term 2006	+	-	-	not.sign.	+
Number of terms MP reelected 2006	+	-/*0	-/*0	-/*0	not.sign.
Admin. /institutional capacity:					
any applic. received funds from first cycle of EU funds, 2004-06	+		Ø	+	
LG received funds from first cycle of EU funds, 2004-06	+			*	*
ratio of local population with higher education	+	*0	+/*0	+/*0	+
Socioecon. controls:					
ln population	+	++	++	++	++
ln per capita local personal income tax base	+	+	+	+	+
% of young population	+	not.sign.	+++	+++	+++
% of old population	+	+++	+++	+++	+++
% of own resources in LG budget	+/-	not.sign.	--	not.sign.	not.sign.
size indicator	-	-	-	-	-
special program for the least developed 33 small regions (LHH)	+	+	+	+/not.sign.	+

+/- : low positive /negative effect (marginal effect under 7-10%)
++/-- : medium positive/negative effect (marginal effect between 7-10 to 20-25%)
+++/--- : strong positive/negative effect (marginal effect above 20-25%)
not sign. : statistically not significant
* 0 : significant, but close to 0
Ø : not used in analysis
* : predicts success perfectly

The best performing of the political explanatory variables was the *same political color of the Member of Parliament* as the incumbent central govt., both for 2002 and 2006. Strongly significant (at 1%) results show that *if* ***political color of the Member of Parliament from a certain locality is the same*** *as the incumbent* ***central*** *government, the* ***chances for getting from EU SF grants are increased*** *with* ***+2-8%*** *across all models and different specifications.* That is irrespective of the grantee and the operational program. MP same color has highest effects in the case of Local Government projects funding chance, and especially for the years 2004-05 and election year 2006, where it reaches

+8% more chances. Splitting data to subsamples by size and periods (Tables 6-7 in the Appendix and the summary table below) shows that even the MP political color variable is not unambiguous, however *same color MPs from 2002* seem to affect grant recipiency chances *positively across all size groups*, while after 2006 we see an interesting point: according to these numbers, *MPs from the smallest (under1000 and between 1000-5000) places seem to be the most influential* in terms of higher grant recipiency chances, while in other size groups it looses its significance, though keeps its positive sign.
As far as the ***political color similarity of the mayor*** with that of central government is concerned it was almost always insignificant, yet in the models for all recipients all OPs and the one for LG receiving grant it was significant and *raises chances to get from EU funds by +4 - 9%* (see Table2-3 in Appendix, although strangely marg.eff. higher for non-LG applicants case) These results fit with the ***partisan model (H1)***, i.e. that central politicians do use intergovernmental grants, among them EU funds for improving re-election chances of their parties both at national and local levels. By splitting along size cathegories, the *color of the mayor* is considerable if we take only projects of the local governments and is positive and significant for the *small towns* (between 5-10000) and the smallest villages (under 1000), increasing grant chances by **+4-*13%*** (Annex Table 6)**.** In the case of the first probably at these places some charismatic mayor figures can actively lobby even in national policymaking for grant approval, and also these are cities that possibly get more attention from parties in election mathematics. In the case of the latter, small villages, it can be the lack of own funds yet the strong need for any investment that urges mayors to try everything in order to get those much wanted EU projects. And it should be kept in mind, that here only same color mayor after 2006 - the rather scandalous elections - are included, i.e. it seems the incumbent socialist government indeed tried to reward some of the remaining few loyal places.

Accordingly, as the partisan model (same color favoritism) got reinforced, it is not so surprising that the swing voter hypothesis (H2) does not seem to be acceptable. The closeness proxies across models for all recipients or LGs and even for different time periods are either significant, but not with the expected negative sign (the closer the race, i.e. the smaller the difference between votes the more chance for grants) or not even significant (Tables 2,3, and 5 in the Appendix). The only place where the closeness of 2006 elections (local and /or parliamentary) come with the expected negative sign and significant are the case of ROP allocations in years 2007-08, especially those where LGs are recipients – yet their marginal effects are tiny, close to zero. (Tables 4-5 in Appendix) Strangely enough, they are significant at the same time with the partisan (same color) variables, which suggests that after the scandalous and for the incumbent disappointing 2006 local elections, both kinds of political tactics could have been in operation at the same time – although coefficients/ marginal effects for the partisan favoritism are higher (and theory would predict such a behavior rather prior to next elections and not through whole term).
However, since the dummy variables for the MP getting elected in the second round of elections (which is another sign of close race) behave well, and often come out strongly significant, plus the standard deviation of the closeness variables is rather high as they are designed now, I am not inclined to say I can fully reject the swing-voter hypothesis, rather to say that these results need caution and further investigation, possibly combined with other public fund allocations in future research, or perhaps using a different proxy for swing voters, such as the density at the cutpoint used by Johansson, 2003.
Contrary to expectations, the variable created for proxying *lobbying capacity* - the dummy if the MP is elected for more than one term - was not positive, though almost

always significant, i.e. I have to reject H3. This negative releationship rather suggests as if MPs are actively lobbying for 'pork barrel' projects from their constituencies in their first term, but become less active and not so succesful in their subsequent ones – this needs further research and the time frame for this analysis was certainly not long enough to properly assess.

Administrative capacity indeed matters (H4accepted**)**. Both proxies (ratio of highly educated population and previous EU funding experience) behaved as expected, with strongly significant and especially in the case of the latter highly positive marginal effects.. Previous EU funds experience from the first cycle of 2004-06 *added very strongly* to the chances of a new project being funded successfully, especially so from the Regional Operative Program and in the case of Local Government applications (+8-32% chances, see Table4-5 in Appendix) – results confirmed what interviewees hinted at and fit with EU absorption literature.

Socioeconomic and need indicators in EU grant allocations

As already emphasized, these socioeconomic indicators *were expected to have a role* in grant allocations, since they control for development policy equity or efficiency goals, be they explicit or implicit, and for local needs. Moreover no political economy theory would predict solely political factors being important in grant allocations, just the possibility of some effects of politics besides these normative ones. The picture is quite mixed in my findings, some worked fine as normative theory predicts for grant allocation, some controls turned out to be statistically not significant in the analysis - which also reflect opposing development policy goals. I have found that *EU grant recipiency chances increase along size*[29]. This is how I expected, partly because EU grants are used also (or it seems mostly?) for growth enhancement purposes for faster overall convergence of Hungary, hence in majority do not go to tiniest, backward places, partly because these projects are generally larger in scale, than usual municipal ones, thus larger places, or associated ones with probably the largest as project manager are initially more determined for such applications in the case of local government applications.[30]

The following tables4 and 5 combine size and actual grant status and show number of projects and amounts contracted throughout 2004-08. It is visible that **larger size increases chances for and also magnitude of EU SFgrants considerably** (H5)– see steady increase of mean per capita funds received by all applicants or by local government. Moreover Table4 makes clear the disproportionately high percentage of both project numbers and especially contracted amounts granted for the larger cities.

[29] The ln population variable is strongly significant with high positive marginal effects, size indicator is negative, as it is coded in a way that largest cities are category1 and smallest are category5.

[30] Moreover when I split data along size categories and for different periods before and after elections, I have found that probits did not always run for the largest cities, as population above a certain threshold would perfectly predict EU grant success for the local government.

Table3 Size and EU SF project no. and amounts

size	Total no.of municip.	Total no. of EU SF projects		% of LG EUprojects from total	Contracted amount of EU SF funds total (million EUR)		% of EU funds by LG from total	Mean per capita EU SF funds received (EUR)	
		all	LG		all	LG		all	LG
municipality size 50000-	33	6250	1526	24,4%	10491	775	7,4%	124,88	296,95
municipality size 10-50000	122	6063	2342	38,6%	6160	412	6,7%	112,74	108,74
municipality size 5000-10000	138	2731	1431	52,4%	2249	192	8,5%	102,37	102,52
municipality size 1000-5000	1132	8750	3267	37,3%	4845	236	4,9%	82,79	37,01
municipality size -1000	1731	5889	1115	18,9%	1443	51	3,5%	82,11	17,79
Σ	**3157**	**29683**	**9681**	**32,6%**	**25188**	**1666**	6,6%	**504,88**	563,01

Table 4 Distribution of projects and contracted amounts along size categories

size	Total number of munic.		% total projects	% LG projects	% contracted amount total	% Contracted amount by LG
municipality size between 50000-	33	1,0%	21,1%	15,8%	41,7%	46,5%
municipality size between 10-50000	122	3,9%	20,4%	24,2%	24,5%	24,7%
municipality size between 5000-10000	138	4,4%	9,2%	14,8%	8,9%	11,5%
municipality size between 1000-5000	1132	35,9%	29,5%	33,7%	19,2%	14,2%
municipality size between -1000	1731	54,8%	19,8%	11,5%	5,7%	3,1%
Σ	3156	100,0%	100,0%	100,0%	100,0%	100,0%

Virtually the same can be said about the economic development level of a municipality (measured by the per capita Personal Income Tax base, which is a good proxy for non-existent regional/local GDP levels), namely that *EU grant recipiency chances increase along a better-off economic position (H7).* This underlines co-financing problems, but also signals that EU funds are mostly spent for growth enhancement purposes. Yet, when broken down along periods and size categories (see Table 7 in the Annex), the per capita PIT base looses its significance from the 2006 election year onward in all size categories, albeit keeping its positive sign.

Regarding the demographic need variables percent of *young* (under14) school-age population is significant and positive, whenever it comes to local government projects, either overall or from ROP, but usually looses its significance in other models with different dep.vars. – which is as it should be, since schools and all related facilities are maintained by the local governments in Hungary and investment needs for those represent a major part of EU funded projects of LGs. Though in the election year 2006 and after, percentage of young lost its significance even for LGprojects – apparently other policy goals were more important. The other local need variable, percentage of *old* population is *always strongly significant* (H6) and positive, adding to grant recipiency chances across all model specifications and sub-samples - a finding contradictory to previous one on Hungarian national investment grants allocation for municipalities (Kalman,2007), where ratio of old people was never an important explanans.

Although I was unsure about its expected sign precisely for the mentioned policy goal confusion, the *ratio of own resources in the LG budget (*a kind of decentralization measure supposed to show the strength and independence of an LG financially*)* usually did *not* even come out *significan*t (H9) . Where it did though, it had opposing signs, i.e. negatively effecting chances for grants in certain cases, and positively in some others (e.g. ROP funds receival of local governments – here at least it is rewarded if a local government tries hard and has its own, become less grant dependent). In sum, the only conclusion to draw from this is that indeed policy goals seem to be mixed, probably

changing from call to call even within opearative programs. Thus whether more financially independent, better-off LGs, who are capable of showing the necessary co-financing own contributions are the winners, or rather the grant-dependent less independent ones remains unclear and needs further investigation.
Last but not least, to *proxy for backwardness*: municipality belonging to the special program for the least developed 33 small regions (LHH) within the National Development Plan - in most of the cases it came out significant and positive (+3-9% chances if they belong to such a small region, see Tables in Appendix), though after 2006 it is more ambiguous (e.g. Table4,5 in Appendix), plus when broken down to size categories, it *seems to affect the chances of the smallest places* (overrepresented in these small regions), while not always significant for the larger ones. This reinforces the presence of some equity considerations in development policy in Hungary (H8).
Besides these regional dummies included in models were usually significant, but rather small, yet the breakdown of the most important variables of policy interests regionally clearly mark the importance of regional effects (Table 6 below). It is interesting to notice that the economically most advanced region (Central Hungary) which is by now out of Obj.1 category, still reveiced much higher portion of Regional Operative Program funding (that is supposed to be the most equity oriented, correcting for regional disparities within the country) than from the overall EU SF allocation. – although the mean per capita amount reveived is the second smallest (in the most populous region).

Table 5 Distribution of projects and contracted amounts regionally

region	Total no. of municip.	Total no. of projects		Contracted amount of EU funds total (million EUR)		Contracted amount from ROP (million EUR)		Mean per capita EU funds received (EUR)
Central Hungary Region	187	2662	9,0%	1 796	7,1%	170	21,1%	59,76
Central Transdanubia Region	402	3376	11,4%	2 322	9,2%	78	9,7%	47,56
Western Transdanubia Region	659	4252	14,3%	3 167	12,6%	35	4,4%	87,02
Southern Transdanubia Region	657	3952	13,3%	2 763	11,0%	94	11,7%	81,61
Northern Hungarian Region	606	4989	16,8%	4 122	16,4%	92	11,4%	102,83
North Great Plain Region	391	5455	18,4%	4 789	19,0%	163	20,2%	98,03
South Great Plain Region	254	4997	16,8%	6 228	24,7%	173	21,4%	102,11
Σ	**2568**	**29683**	100,0%	25 188	100,0%	805	100,0%	578,92

7. Concluding remarks and policy relevance

This research contributes to the fairly small but emerging literature on the political economy of intergovernmental grants and development as well as to the broadening multi-level governance literature and policy research on Structural Funds allocation. Results are in line with already more researched cohesion literature on EU15 and add the case of a new EU member CEE country. Following up on previous empirical findings with respect to Hungary (Csite-Felfoldi, 2006) and standing different robustness checks findings prove that political and institutional aspects do matter in EU funds allocation process in Hungary too.
Grants – if well designed and administered – are an excellent way to alter local recipient choices and correct certain market failure type problems or serve development goals such as growth enhancement, job creation etc. as prescribed in the normative public finance and economic geography literature. Yet, grants can be misused by self-interested

politicians, in which case they can become distortive, or have unintended consequences – discussed in great detail in the reviewed political economy literature. The growing international literature on aid efficiency (e.g. Burnside-Dollar, 2000, Kaufman et al., 2002 etc.) that originally started out from standard neoclassical growth models mostly concentrating on developing countries offers some useful general conclusions[31]. Most notably at best grants can be effective and efficient only conditionally*: international aid provide real positive effects only* in target countries *where domestic policies are relevant and consequen*t. The smaller, but also increasing literature directly dealing with efficiency of EU funds have so far came to similar results: *efficient usage of EU funds depends mostly on institutional conditions* (e.g. de la Fuente, 2002, Ederveen, de Groot, Nahuis 2002, derveen et al. 2006).

This has been reinforced by the findings of this article as well, since proxies for *administrative capacity* and earlier EU project experience came out strongly significant and positive, adding a lot to probabilities of successfully receiveing EU funds – while finding evidence of some politically driven inefficiencies in EU Structural Funds allocations highlights the importance of institutional conditions. Apart from confirming a more growth enhancement, economic development focus of Hungarian development policy and also a mix of its goals findings reinforce the initial hypotheses: i.e. *some election motivated political distortions* (mostly same color favoritism) are indeed verifiable in the allocation of EU funds in the case of Hungary, for the period of 2004-08, though their precise magnitude and effects cannot be measured from these data.

On *governance issues*: experience from former EU15 Cohesion countries shows that in order to overcome coordination problems of decentralization in the beginning of SF operations it can be worthwhile to manage funds at central level (the center as "gatekeeper"), however recent governance literature emphasizes the *role of strengthened Multi-Level-Governance* in public policy and thus in regional policy and SF allocations. From the empirical side Bahr (2006)shows using panel data (from Ederveen et al.2006) that Structural Funds are more effective in promoting convergence when states exhibit a higher degree of decentralization - measured with a local control over local tax base and rates. From this respect the governance of *EU SF planning and administering Hungary is very much centralized*, even more so from 2006, when the National Development Agency was created – and this and other institutional conditions, apart from its obvious scale-economic and efficiency advantages seems to offer leeway for political influence too. Results in this study on the *non-significance of ratio of own resources in LG budge*t match this centralized picture, though according to international findings of Bahr (2006)and Ederveen et al.(2006) or the recent Barca report (2009) this goes against better convergence and good, meaningful absorption - we shall see in the future, when more years of data are available, whether this truly lead to less overall or within country convergence for Hungary.

Finally a few words on the limitations of the study: data has been gathered from various sources, often heavily limiting the available political and other proxies to be used and excluding usage of some more sophistaced estimation methods (e.g. selection models). Yet, the approach presented here provides some interesting insights into the possible determinants of EU SF grant allocation mechanisms and may inspire and inform potential comparative projects on old and new EU member states or other future investigation into these topics.

[31] Váradi, B. (2006, 2007) articles nicely reveal the strength and magnitude of lessons to be learned from this aid literature, as well as highlight the possible traps of this "manna" coming from the EU for the Hungarian case.

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Table1 Summary statistics of variables used

Variable	Obs	Mean	Std. Dev.	Min	Max
dep.vars:					
gotgrant_all	15780	0,731939	0,442964	0	1
gotgrant_ROP	15780	0,268061	0,442964	0	1
gotgrant_LG	15780	0,463562	0,498686	0	1
gotgrant_LG_ROP	15780	0,244613	0,429871	0	1
explan.vars:					
closeness of 2002 parliamentary elections	15740	15,2008	10,02895	0	39,72
MP got elected in the second round of the election 2002	15740	0,689962	0,462524	0	1
MP same color as central goverment 2002	15740	0,210928	0,40798	0	1
MP reelected for more than 1 term 2002	9990	0,804805	0,396371	0	1
Number of terms Member of Parliament reelected 2002	9990	2,363864	0,981986	1	4
closeness of 2006 parliamentary elections	15760	13,19239	8,487905	0,01	36,65
MP got elected in the second round of the election 2006	15760	0,585343	0,492678	0	1
MP same color as central goverment 2006	15760	0,420368	0,493634	0	1
MP reelected for more than 1 term 2006	15760	0,801333	0,39901	0	1
Number of terms Member of Parliament reelected 2006	15760	2,827157	1,282517	1	5
mayor political color same as central government 2002	15680	0,133291	0,844102	0	1
mayor political color same as central government 2006	15675	0,045933	0,209347	0	1
human develop.index (estim.)	15780	0,837593	0,031368	0,757	0,914
ratio of local population with higher education	15780	4,655228	3,601026	0	40,1
any applicant received funds from first cycle of EU funds, 2004-06	15780	0,692015	0,461675	0	1
LG received funds from first cycle of EU funds, 2004-06	15780	0,437896	0,496144	0	1
size indicator	15780	4,396071	0,827109	1	5
special program for the least developed 33 small regions (LHH)	15780	0,21166	0,408498	0	1
countycity	15780	0,005703	0,075308	0	1
ln population	15720	6,789515	1,322424	2,70805	12,23117
% of old population	15780	0,227907	0,068833	0	1
% of young population	15780	0,165802	0,046335	0	0,775547
% of Roma in popul.	15780	0,036587	0,073965	0	0,790598

Table2

Probability models for any actor receiving EU SFgrants and political colors 2004-2008 - Probit estimation marginal effects

dep.var.:gotgrant_all	basemodel without politics	**all 4 years 2004-08** swingvoters_2002	same pol.color		**first cycle 2004-05** swing	same color	**election year 2006** swing	same color	**2007-08** local elec.close	parlam. elec.close	same pol.color	
political vars.:												
closeness of 2002 parliamentary elections		0.00127*** [0.000466]			0.00127* [0.000736]		0,0013 [0.00104]					
MP got elected in the second round of the		0.0272** [0.0108]			0.0289* [0.0170]		0,027 [0.0241]					
MP same color as central goverment 2002			0,00142 [0.00972]			0,00202 [0.0154]		0,00059 [0.0218]				
MP reelected for more than 1 term 2002			-0.0411*** [0.0101]			-0.0415*** [0.0159]		-0.0411* [0.0225]				
mayor political color same as central government 2002			-0.0221*** [0.00429]			-0.0218*** [0.00682]		-0.0225** [0.00954]				
MP same color as central goverment 2006				**0.0354*** [0.00646]							**0.0348*** [0.0102]	**0.0371*** [0.0102]
MP reelected for more than 1 term 2006				-0.0492*** [0.00697]							-0.0493*** [0.0111]	
mayor political color same as central government 2006				**0.0962*** [0.0155]							**0.0964*** [0.0246]	**0.0951*** [0.0251]
closeness of 2006 local elections									0.0473*** [0.0146]			
closeness of 2006 parliamentary elections										-0,0003 [0.000798]		
MP got elected in the second round of the election 2006										0.0390*** [0.0137]		
Number of terms Member of Parliament reelected 2006												-0.0123*** [0.00380]
socioecon.controls:												
ln_population	0.176*** [0.00622]	0.176*** [0.00626]	0.192*** [0.00785]	0.174*** [0.00618]	0.177*** [0.00993]	0.192*** [0.0125]	0.173*** [0.0139]	0.191*** [0.0175]	0.178*** [0.00999]	0.174*** [0.00981]	0.173*** [0.00977]	0.172*** [0.00978]
ln per capita local Personal Income Tax	0.0361*** [0.0101]	0.0376*** [0.0101]	0.0476*** [0.0118]	0.0339*** [0.00997]	0.0401*** [0.0149]	0.0454*** [0.0174]	0.0373* [0.0226]	0.0496* [0.0265]	0.0323* [0.0175]	0.0325* [0.0173]	0.0303* [0.0173]	0,0283 [0.0174]
% of young population	0,0178 [0.0872]	0,0158 [0.0873]	0.204* [0.117]	-0,00286 [0.0868]	0,0479 [0.142]	0,268 [0.190]	-0,0198 [0.188]	0,22 [0.256]	0,0232 [0.136]	-0,00114 [0.137]	0,000466 [0.135]	-0,0166 [0.135]
% of old population	0.707*** [0.0649]	0.693*** [0.0648]	0.668*** [0.0863]	0.731*** [0.0660]	0.725*** [0.106]	0.706*** [0.141]	0.653*** [0.142]	0.653*** [0.191]	0.688*** [0.102]	0.715*** [0.101]	0.730*** [0.102]	0.696*** [0.101]
% of own resources in LG budget	0,0166 [0.0394]	0,0159 [0.0392]	0,0494 [0.0462]	0,031 [0.0392]	0,0453 [0.0623]	0,0637 [0.0728]	0,00699 [0.0878]	0,0497 [0.104]	-0,00124 [0.0624]	0,00425 [0.0624]	0,00643 [0.0622]	0,00599 [0.0625]
size indicator	-0.0726*** [0.0100]	-0.0757*** [0.0101]	-0.0506*** [0.0124]	-0.0664*** [0.00996]	-0.0741*** [0.0159]	-0.0502** [0.0195]	-0.0784*** [0.0225]	-0.0520* [0.0277]	-0.0729*** [0.0159]	-0.0706*** [0.0159]	-0.0667*** [0.0158]	-0.0656*** [0.0158]
ratio of local population with higher education	0.00700*** [0.00144]	0.00695*** [0.00146]	0.00366** [0.00173]	0.00727*** [0.00142]	0.00727*** [0.00232]	0,00413 [0.00276]	0.00692** [0.00326]	0,0037 [0.00387]	0.00669*** [0.00226]	0.00681*** [0.00229]	0.00703*** [0.00224]	0.00713*** [0.00225]
Munic. Belongs to special program for the least developed 33 small regions (LHH)	0.0327*** [0.00747]	0.0329*** [0.00758]	0.0517*** [0.0106]	0.0163** [0.00789]	0.0318*** [0.0120]	0.0493*** [0.0168]	0.0334** [0.0169]	0.0511** [0.0236]	0.0356*** [0.0118]	0.0285** [0.0121]	0,0168 [0.0125]	0.0223* [0.0122]
(year and region dummies)												
Observations	15720	15680	9920	15630	6272	3968	3136	1984	6260	6280	6252	6252

Table3 Probability models for Local Goverment receiving EU SFgrants and political colors 2004-2008 - Probit estimation marginal effects

dep.var.:gotgrant_LG					**first cycle 2004-05**		**election year 2006**		**2007-08**			
LABELS	Pooled - basemodel	swingvoters_2002	same pol.color		swing	same	swing	same color	local elec.close	parl. elec.close	same color	
political vars.:												
closeness of 2002 parliamentary elections		0.00588***			0.00590***		0.00594***					
		[0.000663]			[0.00105]		[0.00148]					
MP got elected in the second round of the election 2002		0.106***			0.108***		0.107***					
		[0.0139]			[0.0220]		[0.0311]					
MP same color as central goverment 2002			**0.0793*** **			**0.0803*** **		**0.0775*** **				
			[0.0129]			[0.0204]		[0.0289]				
MP reelected for more than 1 term 2002			-0.0503***			-0.0501**		-0,0518				
			[0.0146]			[0.0231]		[0.0327]				
mayor political color same as central government 2002			-0.0203***			-0.0200**		-0,0208				
			[0.00626]			[0.00994]		[0.0140]				
MP same color as central goverment 2006				**0.0216****							**0,0216**	**0.0257***
				[0.00919]							[0.0145]	[0.0145]
MP reelected for more than 1 term 2006				-0.0831***							-0.0828***	
				[0.0113]							[0.0179]	
mayor political color same as central government 2006				**0.0442***							0,0455	0,0449
				[0.0254]							[0.0401]	[0.0399]
closeness of 2006 local elections									0.0705***			
									[0.0211]			
closeness of 2006 parliamentary elections										0,00121		
										[0.00118]		
MP got elected in the second round of the election 2006										0.0554***		
										[0.0194]		
Number of terms Member of Parliament reelected 2006												-0.0132**
												[0.00558]
socioecon.controls:												
ln_population	0.214***	0.216***	0.195***	0.213***	0.219***	0.197***	0.212***	0.193***	0.215***	0.213***	0.211***	0.209***
	[0.00853]	[0.00860]	[0.0106]	[0.00858]	[0.0136]	[0.0166]	[0.0193]	[0.0237]	[0.0138]	[0.0136]	[0.0136]	[0.0136]
ln per capita local personal income tax base	0.0575***	0.0656***	0.0846***	0.0591***	0.0791***	0.0901***	0.0550*	0.0795*	0.0483*	0.0486*	0.0481*	0.0455*
	[0.0146]	[0.0151]	[0.0185]	[0.0146]	[0.0228]	[0.0277]	[0.0333]	[0.0410]	[0.0250]	[0.0249]	[0.0249]	[0.0248]
% of young population	0.482***	0.552***	0.787***	0.510***	0.574**	0.910***	0.617**	0.841**	0.485**	0.465**	0.466**	0.443**
	[0.137]	[0.138]	[0.183]	[0.139]	[0.226]	[0.297]	[0.295]	[0.394]	[0.217]	[0.218]	[0.218]	[0.217]
% of old population	0.946***	0.944***	0.890***	1.025***	0.932***	0.912***	0.966***	0.889***	0.999***	0.981***	1.037***	0.978***
	[0.100]	[0.101]	[0.134]	[0.104]	[0.165]	[0.219]	[0.222]	[0.294]	[0.160]	[0.157]	[0.162]	[0.161]
% of own resources in LG budget	-0.158***	-0.138***	-0.184***	-0.135***	-0,101	-0.156*	-0,153	-0,192	-0.188**	-0.172**	-0.170**	-0.172**
	[0.0505]	[0.0506]	[0.0581]	[0.0506]	[0.0813]	[0.0936]	[0.112]	[0.128]	[0.0793]	[0.0793]	[0.0793]	[0.0795]
size indicator	-0.0742***	-0.0772***	-0.105***	-0.0761***	-0.0762***	-0.105***	-0.0793***	-0.106***	-0.0790***	-0.0732***	-0.0760***	-0.0756***
	[0.0127]	[0.0129]	[0.0156]	[0.0129]	[0.0203]	[0.0246]	[0.0288]	[0.0348]	[0.0203]	[0.0201]	[0.0204]	[0.0203]
ratio of local population with higher education	0.0125***	0.0134***	0.00928***	0.0130***	0.0138***	0.00963***	0.0137***	0.00965**	0.0125***	0.0118***	0.0126***	0.0126***
	[0.00177]	[0.00179]	[0.00214]	[0.00181]	[0.00285]	[0.00339]	[0.00402]	[0.00479]	[0.00279]	[0.00281]	[0.00284]	[0.00282]
Munic. Belongs to special program for the least developed 33 small regions (LHH)	0.0385***	0.0376***	0.0487***	0.0201*	0.0337*	0,0425	0,0385	0,0488	0.0454**	0.0399**	0,0235	0.0343*
	[0.0115]	[0.0117]	[0.0170]	[0.0118]	[0.0185]	[0.0269]	[0.0261]	[0.0378]	[0.0182]	[0.0183]	[0.0187]	[0.0184]
(+year and region dummies)												
Observations	15720	15680	9920	15630	6272	3968	3136	1984	6260	6280	6252	6252
Percent correctly classified	70,95	71,01	71,94	70,88	71,01	72	71,05	71,93	71,05	70,84	70,87	71,07

Robust standard errors in brackets
*** p<0.01, ** p<0.05, * p<0.1

Table 4 Probability models for any actor receiving grants from EU *Regional OP* grants and political colors 2004-2008 - Probit estimation marginal effects

dep.var.: gotgrant_ROP	**all years 2004-08**				**first cycle 2004-05**		**election year 2006**		**2007-08**			
	Pooled - basemodel	swingvoters _2002	same pol.color		swing	same	swing	same color	local elec.close	parl. elec.close	same pol.color	
political.vars.:												
closeness of 2002 parliamentary elections		-0.000924*			-0,00092		-0,00094					
		[0.000530]			[0.000839]		[0.00118]					
MP got elected in the second round of the election 2002		0.0808***			0.0816***		0.0810***					
		[0.0108]			[0.0170]		[0.0241]					
MP same color as central goverment 2002			**0.0413*** **			**0.0421** **		**0.0409***				
			[0.0108]			[0.0171]		[0.0242]				
MP reelected for more than 1 term 2002			0,00303			0,00341		0,00198				
			[0.0121]			[0.0191]		[0.0270]				
mayor political color same as central government 2002			-0,00768			-0,00774		-0,00754				
			[0.00605]			[0.00961]		[0.0135]				
MP same color as central goverment 2006				**0.0453*** **							**0.0428*** **	**0.0421*** **
				[0.00779]							[0.0122]	[0.0121]
MP reelected for more than 1 term 2006				0,00535							0,0129	
				[0.00920]							[0.0141]	
mayor political color same as central government 2006				0,00875							0,00728	0,00807
				[0.0183]							[0.0280]	[0.0282]
closeness of 2006 local elections									-0,00701			
									[0.0180]			
received funds from NFT (first EU cycle 2004-2006)									**0.0928*** **	**0.0888*** **	**0.0917*** **	**0.0902*** **
									[0.0140]	[0.0139]	[0.0140]	[0.0141]
closeness of 2006 parliamentary elections										**-0.00758*** **		
										[0.00103]		
MP got elected in the second round of the election 2006										-0.0436***		
										[0.0162]		
Number of terms Member of Parliament reelected 2006												-0,00336
												[0.00446]
ln_population	0.176***	0.167***	0.162***	0.175***	0.168***	0.164***	0.165***	0.159***	0.159***	0.151***	0.158***	0.158***
	[0.00724]	[0.00732]	[0.00921]	[0.00729]	[0.0116]	[0.0147]	[0.0162]	[0.0200]	[0.0117]	[0.0117]	[0.0117]	[0.0117]
ln per capita local personal income tax base	0.0386***	0.0477***	0.0534***	0.0402***	0.0409**	0.0502**	0.0558**	0.0584*	0.0416**	0.0449**	0.0433**	0.0425**
	[0.0118]	[0.0119]	[0.0147]	[0.0118]	[0.0177]	[0.0221]	[0.0255]	[0.0315]	[0.0193]	[0.0187]	[0.0192]	[0.0193]
% of young population	0.715***	0.650***	0.632***	0.674***	0.790***	0.726***	**0,424**	**0,362**	0.799***	0.629***	0.768***	0.769***
	[0.142]	[0.141]	[0.176]	[0.144]	[0.205]	[0.276]	[0.260]	[0.285]	[0.191]	[0.189]	[0.190]	[0.191]
% of old population	0.625***	0.569***	0.411***	0.630***	0.674***	0.476**	0.398**	0,22	0.669***	0.584***	0.673***	0.676***
	[0.109]	[0.107]	[0.133]	[0.111]	[0.155]	[0.211]	[0.201]	[0.216]	[0.144]	[0.137]	[0.143]	[0.143]
% of own resources in LG budget	0,0291	0,0648	0,0314	0,0331	0,0747	0,034	0,0699	0,0411	0,0219	0,0509	0,0264	0,0296
	[0.0415]	[0.0411]	[0.0480]	[0.0417]	[0.0647]	[0.0757]	[0.0917]	[0.106]	[0.0655]	[0.0651]	[0.0655]	[0.0656]
size indicator	-0.0479***	-0.0464***	-0.0688***	-0.0443***	-0.0451***	-0.0680***	-0.0481**	-0.0714**	-0.0487***	-0.0452***	-0.0451***	-0.0454***
	[0.0105]	[0.0105]	[0.0131]	[0.0105]	[0.0166]	[0.0208]	[0.0235]	[0.0290]	[0.0162]	[0.0161]	[0.0162]	[0.0163]
ratio of local population with higher education	0.0119***	0.0131***	0.00999***	0.0127***	0.0136***	0.0104***	0.0127***	0.00937**	0.0117***	0.0130***	0.0124***	0.0125***
	[0.00133]	[0.00134]	[0.00175]	[0.00134]	[0.00211]	[0.00275]	[0.00296]	[0.00390]	[0.00206]	[0.00208]	[0.00207]	[0.00207]
Munic. Belongs to special program for the least developed 33 small regions (LHH)	0.0387***	0.0265**	0.0566***	0.0352***	0,0253	0.0536**	0,0292	0.0636*	0,0267	0,0155	0,0253	0,0225
	[0.0108]	[0.0105]	[0.0155]	[0.0109]	[0.0166]	[0.0244]	[0.0235]	[0.0342]	[0.0166]	[0.0161]	[0.0166]	[0.0164]
(+year and region dummies)												
Observations	15720	15680	9920	15630	6272	3968	3136	1984	6260	6280	6252	6252
Percent correctly classified	80,57	80,53	80,19	80,27	80,56	80,22	80,52	80,34	80,34	80,68	80,2	80,36

Robust standard errors in brackets
*** p<0.01, ** p<0.05, * p<0.1

Table 5 Probability models for Local Govt. receiving from EU Regional OP grants and political colors 2004-2008 - Probit estimation marginal effects

dep.var.: gotgrant_LG_ROP	Pooled - basemodel	swingvoters_ 2002	same pol.color		first cycle 2004-05 swing	first cycle 2004-05 same	election year 2006 swing	election year 2006 same color	2007-08 local elec.close	2007-08 parl. elec.close	same pol. color	
political vars.:												
closeness of 2002 parliamentary elections		-0,000501			-0,00049		-0,00052					
		[0.000496]			[0.000786]		[0.00111]					
MP got elected in the second round of the		0.0627***			0.0635***		0.0628***					
		[0.0102]			[0.0162]		[0.0229]					
MP same color as central goverment 2002			**0.0450***			**0.0461***		**0.0442***				
			[0.0103]			[0.0162]		[0.0229]				
MP reelected for more than 1 term 2002			0,0056			0,00629		0,00419				
			[0.0113]			[0.0178]		[0.0252]				
mayor political color same as central government 2002			-0,00336			-0,00346		-0,00319				
			[0.00549]			[0.00873]		[0.0123]				
MP same color as central goverment 2006				**0.0437***							**0.0390***	**0.0375***
				[0.00732]							[0.0107]	[0.0107]
MP reelected for more than 1 term 2006				0,00414							**0.0342***	
				[0.00856]							[0.0108]	
mayor political color same as central government 2006				-0,00996							-0,00421	-0,00381
				[0.0155]							[0.0214]	[0.0215]
closeness of 2006 local elections									-0,0255			
									[0.0160]			
local goverment has recieved funds from NFT									**0.332***	**0.329***	**0.333***	**0.331***
									[0.0112]	[0.0111]	[0.0112]	[0.0111]
closeness of 2006 parliamentary elections										**-0.00584***		
										[0.000884]		
MP got elected in the second round of the election 2006										-0.0513***		
										[0.0139]		
Number of terms Member of Parliament reelected 2006												0,00402
												[0.00376]
socioecon.controls:												
ln_population	0.171***	0.164***	0.145***	0.171***	0.166***	0.147***	0.161***	0.141***	0.0985***	0.0908***	0.0971***	0.0986***
	[0.00680]	[0.00689]	[0.00874]	[0.00686]	[0.0109]	[0.0139]	[0.0152]	[0.0189]	[0.00977]	[0.00978]	[0.00972]	[0.00974]
ln per capita local personal income tax base	0.0397***	0.0493***	0.0464***	0.0417***	0.0486***	0.0467**	0.0520**	0,0485	0,0192	0,0213	0,0217	0,0227
	[0.0111]	[0.0113]	[0.0136]	[0.0111]	[0.0166]	[0.0201]	[0.0248]	[0.0295]	[0.0161]	[0.0156]	[0.0161]	[0.0162]
% of young population	0.686***	0.638***	0.682***	0.653***	0.755***	0.794***	0.435*	0,419	0.584***	0.452***	0.552***	0.562***
	[0.137]	[0.134]	[0.173]	[0.139]	[0.192]	[0.258]	[0.246]	[0.274]	[0.169]	[0.167]	[0.168]	[0.169]
% of old population	0.613***	0.561***	0.417***	0.621***	0.647***	0.489**	0.405**	0,231	0.467***	0.397***	0.450***	0.479***
	[0.105]	[0.102]	[0.133]	[0.107]	[0.144]	[0.202]	[0.191]	[0.211]	[0.131]	[0.127]	[0.131]	[0.131]
% of own resources in LG budget	-0,00583	0,0262	0,0267	-0,00127	0,0368	0,029	0,0288	0,0353	0,00655	0,0265	0,00937	0,0104
	[0.0386]	[0.0383]	[0.0449]	[0.0388]	[0.0599]	[0.0700]	[0.0860]	[0.101]	[0.0590]	[0.0584]	[0.0587]	[0.0588]
size indicator	-0.0399***	-0.0390***	-0.0658***	-0.0376***	-0.0376**	-0.0646***	-0.0408*	-0.0687**	-0.0273**	-0.0280**	-0.0257*	-0.0256*
	[0.00975]	[0.00980]	[0.0123]	[0.00985]	[0.0155]	[0.0196]	[0.0218]	[0.0272]	[0.0136]	[0.0134]	[0.0136]	[0.0136]
ratio of local population with higher education	0.0103***	0.0110***	0.0100***	0.0110***	0.0115***	0.0105***	0.0106***	0.00943***	0.00748***	0.00856***	0.00819***	0.00817***
	[0.00125]	[0.00126]	[0.00164]	[0.00126]	[0.00199]	[0.00257]	[0.00279]	[0.00365]	[0.00175]	[0.00176]	[0.00174]	[0.00176]
Munic. Belongs to special program for the least developed 33 small regions (LHH)	0.0533***	0.0434***	0.0820***	0.0507***	0.0408**	0.0768***	0.0473**	0.0902***	0,0186	0,0118	0,0225	0,0181
	[0.0103]	[0.0101]	[0.0152]	[0.0104]	[0.0158]	[0.0238]	[0.0226]	[0.0337]	[0.0141]	[0.0138]	[0.0143]	[0.0141]
(+ year and region dummies)												
Observations	15720	15680	9920	15630	6272	3968	3136	1984	6260	6280	6252	6252
Percent correctly classified	82,21	82,34	81,88	82,16	82,32	81,91	82,37	81,85	84,44	84,33	84,1	84,12

Robust standard errors in brackets

*** p<0.01, ** p<0.05, * p<0.1

Table 6 Chances for Local Govt. receiving EU funds and political color by municipality size

	depvar.: gotgrant_LG			dep.var.:gotgrant_LG_ROP			
	Probit			*Probit*			
	5-10000	1000-5000	under1000	10-50000	5-10000	1000-5000	under1000
MP same color as central goverment 2002	**-0.0898*** **	0,0136	**0.0961*** **	-0,0133	**-0.167*** **	0,0216	0,00237
	[0.0304]	[0.0187]	[0.0184]	[0.00887]	[0.0494]	[0.0184]	[0.00856]
MP same color as central goverment 2006	-0,0196	0,0148	-0,00966	0,00142	0,0575	**0.0337** **	**0.0346*** **
	[0.0207]	[0.0169]	[0.0126]	[0.00490]	[0.0463]	[0.0164]	[0.00735]
mayor political color same as central government 2006	**0.0442*** **	-0,0128	**0.130*** **	-0,00406	0,000824	-0,0256	0,0265
	[0.0161]	[0.0309]	[0.0455]	[0.00567]	[0.0489]	[0.0278]	[0.0229]
ln_population	0.153***	0.256***	0.146***	0,00535	0,148	0.244***	0.0935***
	[0.0446]	[0.0162]	[0.00979]	[0.00770]	[0.0913]	[0.0155]	[0.00561]
ln per capita local personal income tax base	0.0410**	0.0719***	0,0166	-0.0259**	0,0885	0.0487**	0.0369**
	[0.0209]	[0.0209]	[0.0227]	[0.0118]	[0.0584]	[0.0206]	[0.0154]
% of young population	1.819***	0.943***	0.274**	0.457**	3.540***	1.237***	0.188**
	[0.454]	[0.268]	[0.132]	[0.209]	[1.045]	[0.269]	[0.0782]
% of old population	2.595***	1.003***	0.658***	-0,0244	1.723**	0.994***	0.252***
	[0.396]	[0.230]	[0.0960]	[0.168]	[0.812]	[0.227]	[0.0574]
% of own resources in LG budget	**0.257** **	-0,0238	**-0.240*** **	0,016	0.674***	-0,0355	-0,011
	[0.118]	[0.0770]	[0.0587]	[0.0474]	[0.251]	[0.0744]	[0.0298]
ratio of local population with higher education	0.00550**	0,00364	0.0179***	0.00457***	0.0182***	0.0133***	0.00465***
	[0.00226]	[0.00245]	[0.00210]	[0.00109]	[0.00515]	[0.00233]	[0.00118]
Munic. Belongs to special program for the least developed 33 small regions (LHH)	-0.0750**	0.0711***	0,0136	-0,0014	-0,0424	0.0831***	0.0137*
	[0.0362]	[0.0178]	[0.0128]	[0.00785]	[0.0547]	[0.0189]	[0.00762]
Observations	685	5650	8565	610	685	5650	8565
R-squared							

Robust standard errors in brackets
*** p<0.01, ** p<0.05, * p<0.1

note: in the case of cities >10000 for probit:MP_gov_02=1 and ln_population > 6.907755 predicts success perfectly, thus regressions do not run

Table 7 Chances for LG receiving EU funds and political color by municipality size and different periods -Probit

	-1	-2	-3	-4	-5	-6	-7	-8	-9	-10	-11	-12	-13
	same color 2004-05					elec.year 2006			same color 2007-08				
LABELS	above50000	10-50000	5-10000	1000-5000	under1000	5-10000	1000-5000	under1000	above50000	10-50000	5000-10000	1000-5000	under1000
MP same color as central goverment 2002	**0.0849*** **	**0.0805*** **	**0.0751*** **	**0.0666*** **	**0.109*** **	-0.146*	0,0286	**0.141*** **					
	[0.0287]	[0.0285]	[0.0282]	[0.0233]	[0.0236]	[0.0844]	[0.0385]	[0.0391]					
MP reelected for more than 1 term 2002	-0,0515	-0.0544*	-0,0485	-0.0457*	-0.0569**	0,118	-0,03	-0,0599					
	[0.0329]	[0.0325]	[0.0325]	[0.0271]	[0.0261]	[0.132]	[0.0460]	[0.0392]					
mayor political color same as central government 2002	-0,0193	-0,0185	-0,0157	-0.0227*	-0.0198*		-0,0454	-0,0185					
	[0.0135]	[0.0133]	[0.0124]	[0.0130]	[0.0101]		[0.0281]	[0.0140]					
ln_population	0.251***	0.248***	0.254***	0.254***	0.230***	0.303*	0.259***	0.147***	0.246***	0.245***	0.247***	0.253***	0.222***
	[0.0162]	[0.0159]	[0.0161]	[0.0146]	[0.0138]	[0.177]	[0.0451]	[0.0296]	[0.0126]	[0.0125]	[0.0125]	[0.0115]	[0.0107]
ln per capita local personal income tax base	0.108***	0.100***	0.105***	0.0931***	0.106***	0,018	0,0548	0,082	0,0474	0,0442	0,0451	0.0561*	0,0348
	[0.0402]	[0.0373]	[0.0387]	[0.0327]	[0.0347]	[0.0462]	[0.0567]	[0.0729]	[0.0343]	[0.0335]	[0.0328]	[0.0288]	[0.0293]
% of young population	1.010**	1.052**	1.031**	1.099***	0.878***	3.400*	1.347*	0,531	0,471	0,505	0,502	0.590**	0,364
	[0.428]	[0.426]	[0.427]	[0.383]	[0.317]	[1.786]	[0.788]	[0.351]	[0.312]	[0.312]	[0.310]	[0.278]	[0.229]
% of old population	1.024***	1.027***	1.082***	1.077***	0.921***	5.009**	1.199*	0.559**	1.053***	1.057***	1.087***	1.087***	0.952***
	[0.317]	[0.315]	[0.316]	[0.290]	[0.230]	[2.034]	[0.638]	[0.254]	[0.231]	[0.231]	[0.230]	[0.211]	[0.167]
% of own resources in LG budget	-0,104	-0,0956	-0,098	-0,114	-0,153	0,24	-0,129	-0.254*	-0,168	-0,163	-0,16	-0,132	-0.208**
	[0.138]	[0.136]	[0.136]	[0.115]	[0.105]	[0.316]	[0.200]	[0.147]	[0.112]	[0.112]	[0.111]	[0.0954]	[0.0874]
ratio of local population with higher education	0.0115**	0.0123***	0.0109**	0.00951**	0.0124***	-0,00012	0,00535	0.0107*	0.0139***	0.0142***	0.0132***	0.0104***	0.0163***
	[0.00470]	[0.00469]	[0.00460]	[0.00399]	[0.00368]	[0.00578]	[0.00709]	[0.00554]	[0.00398]	[0.00398]	[0.00384]	[0.00328]	[0.00318]
Munic. Belongs to special program for the least developed 33 small regions (LHH)	0,0375	0,0416	0,0353	0.0583*	0,0214	-0,0915	0.105**	-0,00285	0,0318	0,034	0,0303	0.0436**	0,0247
	[0.0383]	[0.0379]	[0.0377]	[0.0319]	[0.0301]	[0.127]	[0.0531]	[0.0431]	[0.0260]	[0.0259]	[0.0258]	[0.0222]	[0.0201]
MP same color as central goverment 2006									0,0288	0,0284	0,025	**0,0278**	**0.0333****
									[0.0203]	[0.0203]	[0.0201]	[0.0170]	[0.0160]
Number of terms Member of Parliament reelected 2006									-0,0127	-0.0133*	-0.0146*	-0.0111*	-0.0133**
									[0.00789]	[0.00787]	[0.00779]	[0.00665]	[0.00613]
mayor political color same as central									0,0547	0,0368	0,0634	0,0299	0,0808
									[0.0554]	[0.0549]	[0.0523]	[0.0437]	[0.0496]
Observations	1984	2070	2069	2736	3029	76	752	1045	3147	3248	3264	4256	4841
Percent correctly classified	71,17	72,22	72,16	69,3	71,54	88,16	64,49	72,63	71,08	72,01	71,63	69,45	71,12

Robust standard errors in brackets
*** p<0.01, ** p<0.05, * p<0.1