EU funding policies may be undermined by regional authorities using structural fund allocations to win votes at the local level

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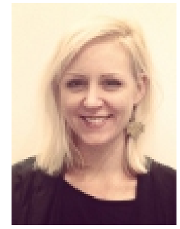
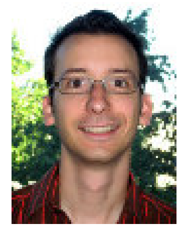
More than half of the EU budget is dedicated to Structural Funds, which are allocated across EU regions with the aim of promoting economic and social development. **Lisa Dellmuth**, **Michael Stoffel** *and* **Dominik Schraff** *write that the use of decentralised authorities to allocate structural funding can create substantive problems for the EU's policy goals. They illustrate that the distribution of funds often reflects local political concerns, with districts that support the regional government's party receiving disproportionate shares of funding.*





Since 2000, more than €500 billion in Structural Funds have been channelled to local projects in the EU Member States via various national intermediary institutions. These intermediaries, typically government ministries at the regional level, select and monitor local projects. The reallocation of Structural Funds across local projects by regional governments has been surrounded by considerable controversy in recent years.

Much academic research, including an article by Jens Blom-Hansen, has focused on the extent to which regional governments use EU Structural Funds for their own interests, but these studies are typically limited to one or a few recipient regions, thereby potentially causing biased findings. In two recent articles, one by Dellmuth and Stoffel and the other by Schraff, we seek to fill this gap in the academic literature. We conducted the first two large-*n* studies of the causal link between EU funding goals, political distortions through regional governments' electoral concerns, and the local allocation of Structural Funds. Our statistical results suggest that the distributive choices of recipient regional governments are largely in accordance with EU goals, but that regional governments nevertheless use EU Structural Funds to reward electorally-mobilised government strongholds.

Regional governments' discretion in selecting local projects

Credit: Elliott Brown (CC-BY-SA-3.0)

The Structural Funds are allocated within the framework of the EU's financial perspective, which specifies expenditure ceilings and eligibility criteria for regions for a period of seven years. The amount of funding each region receives in the course of a seven-year period is fixed at the beginning of the financial perspective. Subsequently, regional governments invest Structural Funds in local projects across a large range of areas, such as transport, business development and communications infrastructure.

Regional governments enjoy a large amount of discretion in selecting local projects. The procedure of payment takes place as follows. After financing projects in advance, regional governments submit aggregated statements of expenditure to the European Commission several times a year. The Commission then reimburses regional expenses. In this process, the Commission can confirm or amend the rate of Structural Funds assistance in order to ensure that the projects receive the resources needed for their achievement without the beneficiaries acquiring any unjustified advantage, for example through a distortion of market conditions.

According to EU treaties, the Commission can penalise sub-state governments by cutting back the amount of funding, in the case of irregularities or ineligible expenditures, as explained in a European Court of Auditors' 2008 Report. Despite the Commission's supervisory role, however, regional governments retain significant discretion in choosing projects, as the legal framework does not provide clear-cut eligibility criteria for projects.

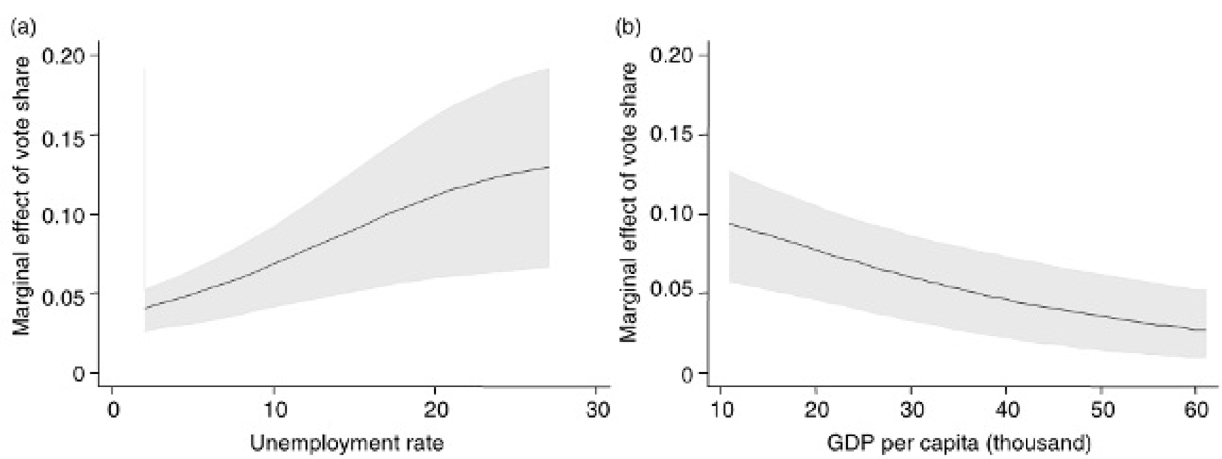
Motives and behaviour of regional governments in allocating funds locally

We examined the motives and behaviour of regional governments in allocating Structural Funds across 419 German local districts during the period 2000-2006. Germany makes an excellent case study for an inquiry into the political-economic process culminating in the local allocation of EU Structural Funds, as *Länder* (German state) governments are popularly elected. Our analysis yields three main results.

First, regional governments allocate Structural Funds across local districts largely in accordance with needs-based criteria, as specified in the EU regulatory framework. The bulk of the Structural Funds are spent to alleviate structural problems related to urbanisation, high unemployment and lagging economic performance.

Second, *Länder* governments spend more EU funds in local districts where the vote share of the regional Prime Minister's party is high. Furthermore, poor districts receive more special interest spending than rich districts because regional policy-makers assume that they will receive more votes per euro invested in poor than in rich districts (see Figure 1 below).

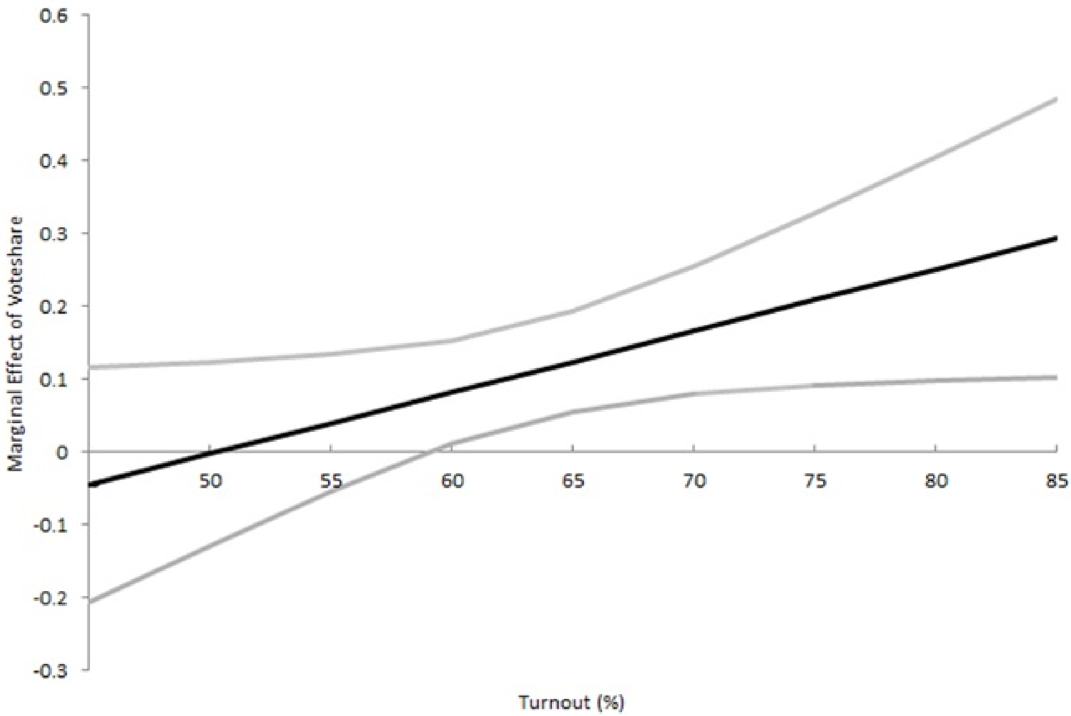
Figure 1: Marginal effect of vote share for state prime minister's party on local funding per capita



***Note:* The solid lines show how the effect of support for the state prime minister's party on the spending of EU funds varies depending on the unemployment rate and GDP per capita of districts. In other words, in addition to it being more likely that EU funds will go to districts with high levels of support for the state prime minister's party, it is also more likely that of these districts, those with high unemployment/low GDP per capita will receive particularly high levels of EU spending. The shaded area shows 90 per cent confidence intervals. *Source*: Dellmuth and Stoffel**

Third, regional governments allocate more EU funds across stronghold areas where electoral turnout is high. That is, they use differences in the level of electoral mobilisation to make distributive decisions among their many core constituencies (see Figure 2 below).

Figure 2: Average marginal effect of vote share for state prime minister's party on EU funding by turnout



Note: **Similar to Figure 1, the dark line shows how the effect of support for the state prime minister's party on EU funding changes relative to turnout within districts. The higher the turnout within a district, the more pronounced the effect. The lighter lines show 90 per cent confidence intervals.** ***Source:*** **Schraff**

Controversy over the decentralisation of EU Structural Funds

The extent to which our results will generalise to other countries is uncertain, and further studies that cover more countries will tell us how far they hold. However, we expect to find similar political distortions in local EU funds allocations in other Member States with popularly elected regional governments, such as Spain or the UK.

The German case adds new insights to an ongoing controversy about the design of EU Structural Funds which pivots around the question of how much discretion should be granted to Member States in reallocating Structural Funds locally. Our results clearly show that the decentralisation of EU structural policy comes at a cost. Regional governments may use their discretion to reward core voters, potentially undermining EU funding goals.

This, in turn, may help explain why many studies, including an article by Lebre de Freitas *et al,* find little correlation between Structural Funds transfers and desirable changes in macroeconomic indicators. Future discussions about the design of EU structural policy are likely to revolve around the trade-off between the benefits of a decentralised allocation of Structural Funds and the costs arising from a relatively non-transparent allocation process and potential political distortion. A crucial question that EU citizens and policy-makers have to answer for themselves is: Do we want to bear these costs, and, if so, to what extent?

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Note: This article gives the views of the authors, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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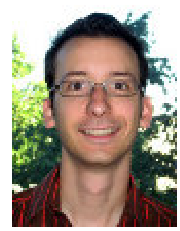
About the authors

Lisa M. Dellmuth – *Stockholm University*
Lisa Dellmuth is Postdoctoral Research Fellow in the Department of Political Science at Stockholm University. Her research focuses on comparative political economy, international relations and public opinion towards international organisations, and has been published in leading EU journals. In 2012, she received the SAGE Award for Best Article Published in European Union Politics, Volume 13.

Michael F. Stoffel – *University of Mannheim*
Michael Stoffel is Postdoctoral Researcher in the Mannheim Centre for European Social Research at the University of Mannheim. His research covers a broad variety of topics within the fields of political economy, comparative politics and political methodology. His recent publication with Lisa Dellmuth won the SAGE Award for the Best Article Published in European Union Politics, Volume 13.



Dominik Schraff – *University of St Gallen*
Dominik Schraff is Assistant and PhD Candidate in the Department of Political Science at the University of St Gallen. His main research interest is in the field of political economy. His PhD focuses on the impact of individual labour market experiences on political orientations. He is also conducting research on the political economy of the EU's regional policy.

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