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Local governments and types of political favouritism – theoretical approaches, empirical evidence, and plan for an empirical analysis in Hungary

Report commissioned by the Hungarian Helsinki Committee and supported by a grant from the Foundation Open Society Institute in cooperation with the OSIFE of the Open Society Foundations, and by a grant from the Swedish Postcode Foundation.

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We thank Judit Berei and Borbála Greskovics for her contributing to the project with diligent assistance.

Budapest
April 2022

EXECUTIVE SUMMARY

Political favouritism is a phenomenon frequently and systematically analysed and studied by researchers and experts in the field of political economy and development economics. In this paper we follow the broad definition of political favouritism by identifying it as a specific set of opportunistic decisions made by political actors and an associated set of policy instruments potentially used by those actors to influence other political actors and/ or other social or economic actors (for example, local communities/ constituencies, economic actors, etc.).

In this project we strived to identify the various types of political favouritism relevant to and observable in the interactions between the central and local governments. We started our inquiry with mapping the related literature either theoretically conceptualising or empirically assessing the occurrence and the extent of political favouritism. While mapping and synthetising the main results and conclusions of these papers and empirical studies we preferred those which: i) focus their analytical attention on stories interpreting politically induced bias in the decisions of central government actors *vis-à-vis* local authorities; ii) present empirical evidence for political favouritism across a broad set of countries, that means, preferably rely on the analysis of cross-country (panel) datasets; or at least iii) reflect on country-specific experiences and cases observed in countries structurally as similar to Hungary as possible. Notably, while we assigned more weight to studies providing empirical evidence based on a cross-country analysis (allowing variance in so called contextual factors - such as: level of economic development, constitutional rules, federalism or lack thereof), we do not completely ignore conclusions of country-specific studies demonstrating and systematically analysing cases of political favouritism that might be also relevant for Hungary, as well (c.f., stories from new EU Member States or from other mid-income and semi-peripheral countries, operating under a less than fully democratic regime).

Based on our comprehensive (though not completely exhaustive) literature review we found that

- The way how the decision makers can exert or amplify their political or partisan influence, that means the policy tools or instruments they use, and
- The ultimate goals and motivations of the main political decision makers at the central government level

are key in understanding political favouritism and properly distinguishing various types or cases of this phenomenon.

First, largely following the classification of Hood et al (2007) **we define three types of policy tools** (or instruments, respectively). i) *Fiscal tools* provide opportunity for the central government to directly influence the public budgets of the local governments (*via* central transfers, taxation, or debt/deficit management opportunities). ii) We refer to *regulatory tools* when the central government is using any type of legislative actions to shape the way how public authorities (see also municipalities) and publicly owned companies (see, municipality-owned companies) are operating; or how the transactions between public and private entities are regulated (see primarily the cases of outsourcing and public contracting). Besides typically issuing primary or secondary legislation, for example changing licensing criteria or public contracting rules and procedures in line with party preferences belong to this category. iii) We refer to *institutional or organisational tools* when we consider and assess the conditions under which key public institutions are operating – we mean here public institutions which interact with local governments (see, for example state audit office, competition authority or public regulatory agencies) or public organisations which operate also at the local level (see, public companies or government agencies providing local services, such as social services, public housing or other types of public services).

In practice these tools may co-exist and can simultaneously be applied in various policy areas. Studies focusing on public procurement show for example how the tactical allocation of public funds (typically, a fiscal tool) can be enhanced by opting for less open and competitive public procurement procedures (c.f., regulatory tool) and / or appointing a politically linked leader to the public body supervising and coordinating the public procurement transactions nationwide (c.f., an institutional tool). Nevertheless, we think it is important to take these instruments apart at least for the sake of analytical clarity and for the benefit to differentiate the depth or extent of political favouritism at the end of the day.

It also seems that fiscal tools establish the most direct and more common instrument to exert political influence (at least, the empirical evidence is more overwhelming for this instrument). Regulatory and institutional tools provide a more indirect often understudied though not surely less effective avenue for political favouritism. Apparently, measurability and external validity problems (see, lack or limited opportunity to quantify the government actions taken and its effects; and relevance of one observed case in other country context) challenge the researchers in their effort to capture the full extent and impacts of the application of these tools.

Second, regarding **the goal of political decision makers at the central level** we explored three major theoretical approaches in the academic discussion concerning political favouritism. The normative theories in welfare economics (especially fiscal federalism) and classical regulatory studies suggest that central decision makers (i.e., the Prime Minister, line ministers, or even members of parliament) strive to *maximise the social welfare* while allocating resources or regulating markets in their domain. Place-based policies may correct misallocations and market failures.

The normative starting point is however challenged mainly by public choice models putting forward arguments in favour of politically induced biases in allocations of government funds due to *politician's motivation to maximise the expected votes cast for their own parties by mobilising their local party base (core-supporter) and/ or additional members of their own constituencies* (e.g. undecided citizens or local entrepreneurs with an economic interests in providing public services and goods at the local level, see *swing voter models*)**.** These phenomena are also often referred in the literature as *pork barrel spending* or *pork barrel politics* – indicating cases when politicians tend to fund public projects of questionable social value in their home districts in exchange of political support (e.g., votes or campaign donations).

The positive, interest-based theories of regulation explain why political or partisan alignments can play an important role in market regulatory processes that result in less than competitive market conditions or in public services or goods failing to meet minimum safety or quality standards. As opposed to the normative approaches, in these models public regulators may be easily influenced by specific (eventually party-affiliated) business interests to pose various entry barriers, to minimise market transparency and predictability (*regulatory capture)*, or *vice versa* to reshuffle whole markets or market segments by nationalisation and centralisation (for example by setting up large national companies in service areas which have been previously characterised by local/ regional service providers owned by municipalities or supervised by municipalities *via* outsourcing, cf *state capture*).

The *concept of clientelism* as a subset of political favouritism emerged in the literature to describe government practices when political elites allocate public resources or manipulate public contracting processes in exchange for political support. Politicians may abuse their patronage power to design privatization programmes so as to ensure that public assets are sold to their friends or party allies (cf. cronies) or to appoint even family members, relatives to the top manager positions of publicly owned enterprises. Political decision makers are motivated to corrupt market regulatory or public procurement processes to buy loyalty which in turn helps them consolidate their power and (re)strengthen their advantage over political competitors. But they can also be motivated to

strategically allocate public resources or directly influence the operation of government agencies to channel private gains to themselves *via* familial links. While the motivations of the political patrons differ between the first case often referred as *cronyism* and the second case usually labelled as *nepotism* (notably, both as specific types of clientelism), both these cases usually lead to corrupt or socially not desirable outcomes.

As suggested by theories of corruption control and new institutionalism so called *institutional solutions* can be effective in constraining political decision makers in their efforts to serve their own or their clienteles' interest. While the access to natural resources, the availability of large development funds (international aids) boosts the opportunities for corrupt behaviour. For example, international commitments (such as, compliance with EU audit requirements in case of development aids) or independent, autonomous institutions and actors (such as, state audit office, competition authority, public regulatory agencies; or even civil society or business organisations) might be able to scrutinize and hold in check the excessive exercise of political power and hold misconduct to account. Social outcomes strongly depend on the balance of these opportunities and constraints in a country. Restricted opportunities create less chance for political favouritism. The control and accountability mechanisms can, however, be also compromised. Political patrons in power may have the option to influence these institutions and change the way how they operate. They may cut their budgets or their access to government funds, they may appoint cronies or even family members to the top leader positions, or to cut short their opportunities to consult and to access information on the details of specific government decisions. Disabling these institutional constraints further enhances the ability of the politicians in power to corrupt behaviour.

Other studies go beyond the emphasis on party or partisan alignment and push attention to *further motivations stemming from other, than partisan considerations.* These papers tell stories about key political incumbents (cf the political elite) acting in line with their pure self-interest (*grand corruption*). Political actors may channel private gains for themselves or for the benefit of specific and not exclusively political group-interests – see, their families, relatives, ethnic group, or their place of birth, that means to their own local community. The concept of *birthplace* and *regional favouritism* emphasises the geographic, location-based importance of the constituency of corresponding political actors and assess the extent and effectiveness of their influence on allocation of public funds and targeting of large-scale public investment projects and programmes (for example, housing and infrastructure projects). These concepts stress the importance of the social identity or the specific regional preference of the political decision makers and explain how they might allocate public funds according to their identity affiliation – independently from their direct or indirect electoral interests (birth town or regional bias). *Nepotism* is in turn defined as a type of clientelism, which brings familiar links and network members to the foreground.

Intriguingly, the vote-maximisation/mobilisation motivations may not replace other motivations. As some country case studies show, these can be complimentary to or even strengthen strictly partisan or political motivations at the individual level. So, keeping them in mind and distinguish them we think helps better identify the types of political favouritism.

Considerations on political goals and motivations help us to understand why political elites do, what they do; and by paying attention to the different policy tools, we hope to highlight how many ways political influence can be exerted and realised. Following the above logic, we propose a typology of political favouritism based on these two dimensions. The table below gives a detailed overview on our findings based on our extensive though not exhaustive desk research.

Table: Major types, examples of and country references for political favouritism

	Goals and motivations of the political decision-makers		
Policy tools used by the political decision-makers	***Social welfare maximisation***	***Vote-maximisation/ mobilisation***	***Other motivations (pure self- or group-interest, geographic considerations)***
Fiscal tools	Equity- and efficiency-driven allocation of: *(Un)conditional grants *Matching grants *Formula-based transfers Based on local socio-economic parameters and in line with local needs	**Allocating EU development funds to constituencies with higher share of vote for the incumbent party (HU, BU, DE, IT, LV, PL, PT – core voter hypothesis confirmed)** **Tactical or discretionary transfer of earmarked grants/public investments in favour of core voter constituencies (US, Brazil, Chile/public infrastructure programmes, Ghana & Senegal/ foreign aids – funding gaps vary across studies, but significant)** **Tactical or discretionary transfer of earmarked grants in favour of swing voters (Indonesia/public infrastructure projects; Sweden: public employment projects – significantly higher re-election probabilities)** **Partisan bias in definition of formula-based or conditional transfers (Albania, Brazil, Ghana, India, Senegal – room to manipulate weights, factors and/or data used in the calculation/in the formula)**	*Localised public programmes - e.g., public education or housing or infrastructure investments or better provision of public services (e.g., public lightening) (Several developing countries in Africa – see cross-country analysis, case studies from Zambia, Sri Lanka, Bolivia, India) *Ethnically targeted public investments (road building) and provision of public education (Kenya – doubled spending on road building, higher probability of enrolment in public education)

		Delay in transferring funds to municipalities with mayor from opposition parties (Uganda)	
	*Conditional deficit refinancing schemes, hard budget constraints	**Partisan bias in formulation of debt refinancing schemes and in access to municipality loans (HU, Greece – significantly better access to loans)**	*No relevant empirical papers found*
	*Formulation of local tax autonomy (also in line with subsidiarity)	**Restrictions to local tax autonomy based on political selectivity: *Reducing the local tax base *Elimination of local taxes (potentially harming larger/better-off municipalities under the political control of the opposition parties) (Uganda)**	Use of tax exemptions and allowances in sectors dominant in core constituencies (Developing countries in Africa - cross-country analysis)
		Tactical and discretionary allocation of state aid (e.g., foreign direct investment promotion or public investment projects)	*No relevant empirical papers found*
Regulatory tools	Predictable and transparent decision-making and allocation mechanism in the intragovernmental transfers Use of performance incentives in the public sector (*via* performance measurement, client orientation, and public disclosure on access and quality of public services and goods)	**Political bias in the evaluation of public tendering (e.g., professional and financial eligibility criteria) (CZ, HU – motivations may overlap and are not clarified in the country case studies)**	

	Transparent and predictable legislation and regulatory processes		
	Competition enhancing regulations in local sectors and in public procurements tendered by municipalities Use of performance incentives in the public sector (*via* performance-dependent state aid, client orientation, and public disclosure on access and quality of public services and goods)	**Avoiding open and competitive tender types (e.g., use of auctions) or high thresholds for transparency (HU, CZ, UK – though, with a variance in the extent (b/w 10 and 50% of public contracts completed with politically favoured companies)** **Overpricing of public contracts – e.g., concessions, outsourcing of public services (HU – in a range of 6 through 10 times higher prices than benchmark cases)** **Nationalisation /centralisation of sectors previously managed by local companies (either local/regional municipality-owned or private companies) (HU: public utilities)**	
	Transparent and predictable legislative and regulatory processes	**Using MPs as first drafters of bills** **Controlling parliamentary timetable to minimise public scrutiny (HU case study)**	
Institutional / organisational tools	Institutional controls as checks or constraints to opportunistic behaviour *Better institutional quality (higher scores for quality of public administration) – more effective use of EU funds (cross country analysis by	**Political appointments and politically biased recruitments and promotion routes in key public control institutions (state audit office, competition or regulatory agencies, national public utility companies) and in government positions in charge of distributive politics**	Appointment of family members/relatives/ethnic affiliates to key positions – s source for social interest *Conflict of self/group-interest *versus* social interest (misuse of public resources), or

	Ederveen et al 2006 – old EU Members States)	**(Mostly county case studies from: Brazsil, Germany, India, and HU)** **Cutting budgets of key public institutions** **(Lack of cross-country empirical evidence, though case studies from developing countries/Africa, and HU)**	*Deteriorating quality of public services /goods due to lack of competence, (quasi) competitive managerial skills (case studies from: UA, HU)

We use normative theories as benchmarks and as checkpoint for mapping as many types of political favouritism as possible. The insights that seem to be the most useful for the work, concentrating on Hungary, are as follows:

- Empirical evidence seems to abound for the prevalence of political favouritism. While the clear, singular definition of the term is lacking, there is a consensus across the literature that as opposed to the social welfare-maximising decision makers, central government actors may act on various policies and spend public budget in a way to gain political benefits for their own or for the sake of their party.
- Most empirical studies focus on a single country and a single policy outcome (see, public good or service), and primarily on democratic regimes. Many authors argue that the focus on democracies is due to the absence of reliable, systematic data on government policies and decisions in nondemocratic regimes. Methodological challenges explain the dominant focus on single country – for example, government spending data is often difficult to align at cross-country level, definition and scope of public service do differ even within the European Union.
- Nonetheless, empirical evidence on the tactical use of fiscal transfers is abundant (see, conditional or discretionary grants, but also in the case of formula-based transfers). We identify two reasons for this dominance: first, there are severe methodological challenges in measuring and quantifying the other types of favouritism (see use of regulatory and institutional tools). Second, our literature mapping was extensive, but not exhaustive. So, it can be further extended to specific country/case studies (with the caution to external validity problems in this case).
- As also suggested by some theoretical models, the goals of the political decision makers can dynamically change in time and vary across localities: targeting core voters can be tactically combined with allocating intra-government transfers to municipalities shifting colours (swing voter constituencies), at the same time. We find evidence for all these motivations across the EU Member States and from countries, structurally similar to Hungary (e.g., Argentina, Portugal).
- Hard to find systematic geographic/country or other structural pattern for the emergence of the various types of political favouritism. Countries with more established democratic regime or with more pluralistic political culture also demonstrate cases of political favouritism. For example, empirical evidence from the Czech Republic suggests tactical break up of public procurement transactions and thereby manipulation of the expected contract values to avoid more competitive procedures (see, auctions) prevails. Also, in the case of UK public contracts with politically aligned companies (cronies) are observable (10%), but less than that in the Hungarian case (ca. 50%).
- So, while political favouritism seems to be a global phenomenon, the degree/extent of the tactical manipulation due to partisan influence appears to be smaller and there is lower risk or opportunity for the incumbent political elite to use more indirect tools to exert their influence in countries with more robust institutional controls and more effective public accountability mechanisms. Notably, this is also the main conclusion of cross-country studies assessing risks of corruption in general (usually defined more broadly than political favouritism here).
- While in theory different exogenous limitations could curb political favouritism, the insight that emerges from the literature is that the effectiveness of constitutional and institutional controls and political pluralism play highly significant role – the weaker they are, the more room is there for combining the various policy tools, amplify the extent of partisan influence throughout the whole policy cycle (formulation, implementation), and to be “innovative” in

using all the various policy tools at hand to restrict the financial and policy leverage of the municipalities to the minimum.

Consequently, we suggest taking this more comprehensive approach and typology of political favouritism as a checklist for the next-step analysis of the Hungarian developments in the period 2019-2021. For the sake of external validity, however, and that of relevance, we narrow down the focus of the national assessment on the use of EU funds in Hungary. External validity is important to check whether any findings on the Hungarian practice is consistent with empirical evidence from abroad, from benchmark countries (see, new EU Member States, or older EU Members States with similar structural-institutional characteristics, for example, Portugal). The importance of EU funds in public investment in Hungary is crucial due to its dominance (55,4% of all capital investments financed by public funds) and its significance as a policy tool.

Due to the project limits in time and budget, however, our focus on political biases shown in favour of municipalities aligned with the central government, the Territorial and Settlement Development Operational Programme (*Terület és település-fejlesztési Operatív Program*, TOP) and the corresponding allocations realised within this programme in the period October 2019 and June 2021 are taken pilot examples to check for any potential indicator of political favouritism. This choice is justified by the fact that this programme targets primarily local government entities (municipalities as well as public companies and institutions owned and managed by municipalities), and also by absorption data which reflects a relatively late take up of its allocations by local stakeholders.

Based on our short analysis of the Hungarian context on the financial conditions on public finances at the local level and on our descriptive analysis of the TOP measures, we conclude, that:

- The actual size of the geographically targeted EU transfers, the effective fiscal constraints experienced by local governments in the period 2019-2021 due to the Covid-19 crisis measures and the constantly deteriorating (comparatively) low quality of public institutions in Hungary can make the EU funds especially subject to political favouritism and consequently, misallocation.
- We find evidence for the political alignment effects in the use and allocation of EU funds in Hungary for the pre-2019 period. The empirical studies focus test the political manipulation hypotheses across ideologically different government cycles, and by using government administrative data in an extensive and comprehensive way show significant signs of biased EU fund allocations in favour of the incumbent parties (pro-government political favouritism) across Hungarian political cycles.
- Empirical evidence for manipulating the public call/tender launches, the progress of public procurements (the most typical mechanism applied in case of non-automated, discretionary allocations) abounds, but we miss both systematic, data-driven analytical papers as well as in-depth qualitative analyses (for example, case studies) on the occurrence and types of such administrative and procedural biases for the narrower set of public procurements launched exclusively for the allocation of EU funds.
- Further qualitative methods-based analysis would be helpful to collect evidence on the use of policy tools, other than fiscal transfers, in the development policy, public investment area linked to the use of EU funds. It is the task of future studies to run an in-depth, qualitative analysis on the occurrence of important informational and procedural biases within the field of EU cohesion policy framework (such as, demonstrating cases when pro-government municipal decision-makers or public project applicants are informed about upcoming calls/tenders in a discreet, non-transparent way, systematically analysing contents of

personalised calls; or checking administrative data on fast tracks and speeded up project applications in case of politically aligned applicants).

Finally, to show with the level of certainty that quantitative social science can muster that politically government-aligned Hungarian local governments received more in EU-grants (distributed at the national level) in the period following October 2019 than opposition-led ones because of their political affiliation would require a comprehensive research effort that proved to be beyond the confines of our project.

Table of contents

I. Introduction

This document is the first report detailing the various insights we gained while examining the phenomenon of political favouritism based on related theoretical studies, cross-country empirical evidence and consequently, assessing the risks of political favouritism for the case of Hungary. This project was conducted following the assignment of the Hungarian Helsinki Committee (HHC) in the period between October 2021 and March 2022. The goal of the project was to support the Hungarian Helsinki Committee in its endeavour to collect and assess the risks of political favouritism in Hungary, with a special attention paid to the occurrence and types of political favouritism linked to the allocation and use of the European Structural and Investment Funds (hereinafter, referred to as EU funds) in Hungary.

As part of the cooperation with the HHC, firstly a comprehensive literature review was carried out on the theoretical and empirical evidence of political favouritism. Secondly, we synthetised the insights gained during the literature review and produced a typology of political favouritism. With this typology our goal was to prepare a checklist or 'menu' to be used in later phases of the project. Next, the combination of the first two tasks resulted in the quick assessment of the public policy context of Hungarian municipalities for the post-election period following the local elections in October 2019. In particular, the goal of the second phase was to use the mentioned typology to assess whether risks of the various types of political favouritism have been in increase or in decline in these last two years. Admittedly, a more comprehensive mapping and assessment of the financial, regulatory and institutional tools available for the incumbent government in Hungary in this period would be necessary to draw robust conclusions. The time and budget constraints of this project and consultations with the HCC led us, however, to limit our focus to the use of EU co-financed grants, as one of the most dominant fiscal tools used under the management of the incumbent government, and to the regulatory context of the EU funds.

Finally, following a quick data mapping exercise we run a small-scale pilot project on the allocation of EU funds within the framework of the Hungarian Territorial and Settlement Development Operational Programme (in short, TOP; *Terület- és Településfejlesztési Operatív Program*). The TOP was selected because its funds are dominantly targeted at public entities at the local level (see, municipalities, its background institutions and companies owned by majority shares by municipalities), the scope of the development grants is heterogeneous (supporting development projects in a broad range of policy areas), and this operational programme has had still considerable funds to distribute in 2019 as opposed to relatively higher absorption rates of the other operation programmes from the same implementation period. We prepared a descriptive analysis on the TOP allocations and checked whether any regulatory or procedural changes have been introduced after October 2019. We used this pilot exercise to fine-tune a more ambitious and comprehensive, data-driven future research plan covering all EU development funds and to test the feasibility of such research with strong reflection on data quality and availability challenges.

Consequently, this document includes:

- A review of relevant literature, discussing the concept of political favouritism and producing cross-country empirical evidence on its extent and indicators (Chapter II).
- A presentation of a typology of political favouritism and its relevance for the use and allocation of EU funds (Chapter III).
- The descriptive analysis on the allocation of EU co-financed funds under the Territorial and Settlement Development Operational Programme for the period 2020-2021 (Chapter IV).

II. Literature review

We started our inquiry with mapping the theoretical and empirical literature either conceptualising or empirically measuring any types of political or partisan biases in policy decisions and processes at the central government level. While mapping and synthetising the main results and conclusions of these studies and empirical papers we preferred those which:

- Focus their analytical attention on stories interpreting politically induced bias in the decisions of central government actors vis-à-vis local authorities,
- Present empirical evidence for political favouritism across a broad set of countries - that means, preferably rely on the analysis of cross-country (panel) datasets; or at least
- Reflect on country-specific experiences and cases observed in countries structurally as similar to Hungary as possible.

Notably, while we assigned more weight to studies providing empirical evidence based on a cross-country analysis (allowing variance in the so called contextual factors - such as: level of economic development, constitutional rules, federalism or lack thereof), we did not completely ignore conclusions of country-specific studies demonstrating cases of political favouritism that might be relevant for Hungary, as well (c.f., stories from new EU Member States or from other mid-income and semi-peripheral countries, operating under a less than fully democratic regime).

II.1. Fiscal federalism, corrective (place-based) intergovernmental transfers

Except for very small unitary (city) states, usually different levels of governments co-exist – at the higher, central level national government being the one; at the lower, local level municipalities being the other (potentially, also with additional levels of government below, in between or above these).

The classical theory of federalism best exemplified by the writings Montesquieu (1748) and the Federalist Papers by Hamilton, Madison and Jay (1788) provides strong normative arguments for why this arrangement can best serve the public good. They suggest that such an arrangement is good, because it combines the social advantages that a „local" government unit of smaller scale, close to a relatively homogeneous set of citizens can provide, with the public services that only larger government organisations operating at the cross-locality level can deliver – typical examples for this latter are effective defence or free trade. This cogent argument, however, leaves open the question of what the best institutional design for the division of labour between the central and local levels of government is. What rules should be set, what public goods should be provided, what taxes should be levied by what level or government in a first best world, where those who answer these questions only have the welfare of the public in mind?

The classical normative theory of federalism strives to answer this question by prescribing decentralization according to the principle that the provision of public services should be located at the lowest level of government encompassing, in a spatial sense, the relevant benefits and costs. The assumption here is that the government units, being closer to the people, will be more responsive to the particular preferences of their citizens and will be able to find the best ways to provide public services (Rodden 2009, following Oates 1999).[1]

In addition, Tiebout (1956) formally proves that, in a theoretical world, where moving to another place by the citizens is costless, the pressure of those citizens "voting with their feet" is enough to ensure

[1] Notably, the principle of subsidiarity enshrined in the Article 5 of the Treaty on European Union reflects the same idea and aims to ensure public decisions are taken as closely as possible to the citizen.

that local governments exactly provide the local public goods that the dwellers of those settlements desire (cf. the idea of *competitive* local governments and *competitive federalism*).

Even without abandoning the assumption of a benevolent decision maker, political economy reminds us that there are other considerations to take into account: the transaction costs of the citizens interacting with more than one level of government and the different levels interacting with each other (Inman & Rubinfeld, 1997).

The concrete answers that flow from these principles as to what local governments should be allowed to do and decide will of course also depend on how many levels of government there are, the size of the municipalities, the demands of the citizenry, as well as technological and economic opportunities, constraints, and other factors. In general, localized infrastructure provision, educational and health provision institutions without optimal size that would exceed a municipality (e.g., kindergartens or primary health care centres), and taxation of tax bases that are local in nature and whose value depends on the quality of local government services (real estate, local businesses) are usually considered best left for the local government level. On the other hand, the provision of public goods with spill over effects and returns to scale (e.g. national train infrastructure, defence or monetary policy) as well as measures that equalize resources across local governments are best left at the national level (Gruber, 2016).

These general recommendations, however, do not yet address the question of how to optimally balance the revenues and expenditures at the local level. In fact, the optimal scope of tasks requiring local government expenditure, and the amount of tax revenue optimally raised locally, need not match at all.

The *normative theory of fiscal federalism* provides a framework for the assignment of functions to different levels of government, and for the achievement of a balance between responsibilities and resources at each governmental level. The main assumption of this approach is that the central government is motivated mainly by efficiency and equity objectives, seeking to maximise the general welfare of the whole population. The idea of fiscal equalisation or that of intergovernmental transfers, as the main tool of distributive politics, results in transfer of fiscal resources by the central government across local jurisdictions with the aim of offsetting differences in revenue raising capacity or in costs of providing public goods and services at the local level. Consequently, the main rationale for such central interventions is the presence of unequal local circumstances which produce disparities in the capacity of local governments to generate wealth and appropriate public resources (Oates 1999, OECD 2007).

It should be noted that all these normative approaches assume that the national level decision makers maximize social welfare as much as the decision makers do at the local government level (mayors, council members). It is also plausible to postulate that the local decision makers have only the welfare of the local population in mind – and indeed, this is what makes the idea of local government appealing in the first place. Given that it is very rare for any government action to be a 100 percent localized to a municipality in all its effects, this additional concern alone can cause the decisions of the local government to sometimes be misaligned with nationwide social welfare if the public good or service locally provided has external effects on non-local citizens as well. In what follows, intergovernmental transfers from the national (or other higher level) budget to municipal budgets should also contain incentives for local decision makers that rectify said misalignment.

In practice this means that in addition to so called unconditional block grants (the town receives thousand euros) other types of fiscal transfers can be designed – for example, conditional block grants (the town receives thousand euros if it keeps its local budget in balance), earmarked grants (the town receives thousand euros, but it must be spent on building kindergartens), formula-based transfers (the

town receives a certain amount per school-age child residing there) and matching grants (for every euro spent on a certain purpose out of its own budget, the town receives 50 cents) can also be socially optimal to be used (Gruber 2016).

Another thorny issue with respect to fiscal linkages between a benevolent national government and a local one maximizing local welfare is whether the local decision makers will keep the local budget balanced (or the local deficit on a sustainable path). Alas, the answer depends on what they can expect to happen if they let their municipality go bankrupt; that is, a so-called *moral hazard* problem can emerge. If local governments can borrow and expend on the welfare of the local population without burdening them with extra taxes, with the expectation to be bailed out by higher-up levels of government, it might be in their (local) interest to do so. To oversimplify, normative public finance theory recommends either a ban on local government deficits (cf. *balanced budgets requirements*), or no bailouts, i.e., credibly hard budget constraints for municipalities (Rodden, 2002).

Normative theories of setting credible fiscal rules and public finance frameworks for local government also stress general principles of good government like staying strictly within the confines of legality and constitutionality, transparency, legitimacy (Gruber 2016).

The core idea behind the EU co-financed development funds rests with the normative approach of welfare economics and fiscal federalism and assigns the task of allocating public resources across space in accordance with efficiency and equity considerations to the central governments (c.f, the EU Member States). Many EU countries, regions and localities receive funds from the EU budget (matched with matching funds from national budgets) and redistribute it to achieve regional convergence and accelerate economic growth.

The place-based policies are usually justified by arguments that it can correct for spatial misallocations of resources and market failures. Policy makers at the central government level (cf. at EU member state-level) may, however, also allocate funds according to criteria unrelated to economic or equity considerations. In many countries the national legislative assemblies are composed of delegates representing different geographical / administrative units. While they form majority coalitions in the assembly, they still can primarily be concerned with the local welfare of their constituency or with their own private benefits of re-election rather than with the welfare of the whole public. These alternative assumptions on the motivations and objectives of the key (national or local level) decision makers takes us to the next section.

II.2. Opportunistic political behaviour - tactical motivations, vote-maximisation

As the literature based on public choice theory suggests, policies conducted by the incumbent government, by decision makers at the national level may also be influenced by their own private interest (rather than by public interest) that might simply depend upon the probability of re-election. Intergovernmental transfers may easily be subject to political manipulation and be used for delivering private benefits to the members of the ruling (coalition) government as they maximise their chances of re-election instead of social welfare of the broader public (Weingast et al. 1981).

In this context, intergovernmental transfers are considered as a tactical policy tool by the central government aiming at re-election. Extra funds generate goodwill for the incumbent politicians among voters who might not distinguish between actions of central and local levels of governments. The social welfare maximisation objective is replaced here by vote-maximisation, and this results in allocation of national (EU) funds in favour of politically preferred or aligned districts, constituencies, or localities.

Core voter *versus* swing voter models

The first seminal model developed by Cox and McCubbins (1986) claimed that the optimal strategy for risk-averse political candidates is to use public funds favouring their closest supporters (*core voter model*). Lindbeck and Weinbull (1987) suggested, however, that voters with weak party preferences should be targeted.

This latter approach usually proxies the intensity of the political competition at the local level by using the difference in votes cast for the incumbent government and the opposition in the previous election as the explaining factor for larger transfers. According to this model, central governments transfer more public funds to districts, constituencies where the vote gap is small (*swing voter model*).

Building on these two pioneering model Dixit and Londregan (1996, 1998) further argued that parties benefit swing voters if they are equally effective in delivering the political gains, or constituencies where voters are quicker to shift their political preferences in response to the promise of transfers. They also suggest that central decision makers might also follow a mixed strategy: if the decision maker's objective is to maximise the number of votes obtained (as in some parliamentary elections) more funds should be allocated to localities where the political competition is fierce. On the other hand, if the decision maker's objective is to maximize the probability of winning a majority of seats in the legislature (as is needed to form an executive government in many countries) weight should also be given to localities or districts thought to be pivotal – that means, to those without whom it would be hardest for the incumbent party to win a majority.

Dahlberg and Johansson (2002) tested the predictions of the core *vs* swing voter models by using data on conditional grants of a temporary ecological programme distributed by the Swedish central government to municipalities. They found no support for the core voter hypothesis and showed that the smaller the difference in the votes given to the parties or party blocs in the last election, the larger the probability is to win more grants (plus 3,4% at the margin) by municipalities. They argue that even if grant eligibility has been determined by municipal needs (defined by socio-economic characteristics, such as share of young/old demography, financial performance of the municipality), the allocation of grants is clearly motivated by the vote-purchasing motivations of the incumbent government. Johansson (2003) conducted a more comprehensive study covering all types of public grants (both unconditional and earmarked – cf. investment-oriented – grants) aimed at Swedish municipalities and confirmed the same conclusion; municipalities with many swing voters are given larger grants (significantly higher per capita grants over the period 1981-1995). Similarly, Veiga-Pinho (2007) studied the allocation of total grants in Portugal, using the sum of all types of grants (both formula-based and not formula-based) distributed to municipalities in the period 1979-2002 and their results again supported the swing voter model.

Castels-Sole-Olle (2005) used a historical database on publicly financed infrastructure investment project in Spain for the period 1987-1996 and brought evidence that the central government invests more in the regions where electoral productivity is higher and the partisan bias was maximised during the election years - that means, not being aligned with the central government or not being pivotal reduced the investment effort by around 20%. Repetition of the same study using a broader historical investment database (covering both democratic and dictatorial Spanish regimes from 1960 through 2004) confirmed the same results, increase in the marginal seat price or in the incumbents' vote margin significantly reduced the amount of centrally financed investment projects in the corresponding Spanish municipalities (Solle-Olle 2013).

Case (2001) used data on block grants designed to support the delivery of social assistance to local communities in Albania to show that social assistance funds are on average higher (by 18%) in case of local districts with a higher number of swing voters but also in municipalities that might be pivotal to winning a majority of seats in Parliament.

On the contrary, Rodriguez et al (2016) found that Greek public funds spent for investment in a broad range of policy areas (e.g. manufacturing, agriculture, education and research, and including also EU co-financed funds not just those financed by the national budget) were channelled with a higher likelihood to those regions which i) delivered the greatest number of votes and MPs, and ii) where the vote gap between the incumbent and the opposition parties was the largest. Kauder et al (2016) also conclude that projects grants aimed to boost rural renewal and local public infrastructure are higher (by ca. 15%) in German municipalities where the incumbent party has a higher vote share. Veiga and Pinho analysis (2007) indicates that in the early period of Portuguese democracy (1979-1988) central grants were channelled towards municipalities ruled by mayors aligned with the Prime Minister's party as well as towards key swing municipalities. Notably, this type of political favouritism was not detected in the later periods (except local and national election years) in the case of the transfers financed exclusively by the national budget, but it again emerged with the entry and inflow of EU co-financed development funds. Veiga (2012) found that the distribution of EU grants between 1992-2006 is skewed towards municipalities where the parties in central government have their core supporters. Veiga points out that as democracy matured and general national transfers (mainly unconditional) transfers become more formula-based, tactical manipulation shifted to other types of grants – namely, the EU funds which are basically matching funds (spent with an obligation of co-financing).

While looking for empirical evidence for either model in a broader global context, we came across a large variance in type of transfers analysed and development policy areas examined. The results of these studies again vary in their conclusions whether core or swing voter support drives the central-level political decision makers.

Alperovich (1984) in his seminal paper estimated and confirmed the core voter model based on the data on intergovernmental grants to local authorities in the US. Ansolabehere and Snyder (2006) analysing state transfers to local governments in the US found a substantial partisan bias in favour of localities that provide the incumbent government with the strongest electoral support (and just little, or no support for the swing voter approach).

Brollo and Nannicini (2012) suggest that intergovernmental transfers aimed at highly visible, infrastructure projects in Brasil were used by the ruling government to support politically aligned majors (or those affiliated with the ruling coalition) with larger public funds (by ca. 30%). Finan and Mazzocco (2020) found that electoral incentives explain almost 30% of the misuse of public funds allocated by federal legislators favouring their own constituencies in the period 1996-2013.

Luca-Rodriguez-Pose (2015) used per capita fixed investments over two national budget cycles in Turkey and Lara-Toro (2019) data on infrastructure grants aimed at urban development in Chile to find evidence also in favour of the core voter support. The effects of partisan favouritism are considerable in both cases – funding of opposition municipalities in Chile decreased by 30% (as compared to the base year) and public funds allocated to provinces governed by opposition parties in Turkey by 37% (as compared to those of political colours similar to the ruling party).

Gonshorek et al (2018), however, provide evidence for mainly targeting districts with less support for the Indonesian president with infrastructure investment funds in their analysis for both off-election and election years (with a higher marginal positive effect for the campaign period). In addition, the authors also conclude that the allocation of these centrally distributed, discretionary grants designed to fund physical infrastructure (of great visibility for the public, e.g., in agriculture or in public transport) is not influenced by the different needs of a district.

Rules *versus* discretion-based transfers

Some studies investigate whether rules- or formula-based funds are less likely subject to political favouritism than public funds allocated in a more discretionary way (see for example, specific public transport project subsidies, or other types of highly visible, public infrastructure project grants). Obviously, discretionary allocations allow more room for interpretation to the central decision makers (cf party-affiliated ministers, members of parliament). In return, formula-based allocations seem to be useful to limit (or at least) minimise the tactical use of the same public funds since grants, subsidies are determined by pre-specified, (mostly) measurable objective criteria (such as, socio-economic characteristics of the localities, financial performance of the municipalities).

By comparing different designs of intragovernmental transfers in Indonesia between 2004 and 2017, Gonschorek (2021) suggests that formula-based transfers are more effective in limiting political favouritism. He shows that non-formula-based transfers were systematically biased towards the home districts of the National Budget Commission members (the main decision-making body), these same districts have not benefited from higher per capita transfers under the formula-based design. Dahan and Yakir (2019) compare the likelihood of receiving support from the state lottery fund in Israel under two regimes. Their results illustrate that the state lottery board tended to prefer economically stronger (cf Jewish dominated) localities before the introduction of the formula-based regime, while more disadvantaged localities benefited more under the same decision board after the policy shift.
Nonetheless, central governments do also have the opportunity to re-calibrate the formulas and tactically change them in their own political favour. They may modify the weights, or the factors used in the formula, or manipulate the computational process and the data to get the (politically) preferred outcome (Boex-Martinez-Vazquez 2005).

In their recent study Merkaj et al (2020) using data on formula-based, non-discretionary grants to Albanian municipalities find that while the underlying formula defined by the central government reflects efficiency and equity considerations, the transfer which is formally an unconditional per capita grant is not immune to partisan bias. Litschig (2012) also found that the local population estimates used to calculate a specific, formula-based revenue-sharing mechanism for Brazilian municipalities were manipulated in favour of swing voter communities between 1980 and 1991. This intragovernmental transfer was originally designed to compensate smaller municipalities (based on the apparently objective criteria of their population size), but it led to higher likelihood (by 16 percentage point) of receiving transfers in the case of highly competitive local districts.

In sum, these papers unanimously suggest that in countries with weak local government, where central government is emerging as the real policy maker in policy areas usually delegated to local authorities, budget formulas can easily be biased in favour of politically aligned municipalities. The partisan bias in the definition and use of formula-based or conditional transfers is evidenced by studies from developing countries, like Ghana, India, Nigeria, Uganda (Banful 2011, Lambright 2014, Pande 2003, Taiwo-Veiga 2020)

Tactical use of EU cohesions funds

As Veiga (2012) suggests, national development programmes matched with EU co-financed funds might also serve as useful policy tools for key decision makers with vote-maximising motivations. Several empirical studies confirm the core-voter hypothesis using municipality- or project-level panel data on EU funds. Bouvet and Dall'erba (2010) covering panel data from 12 old Member States from the period 1989-1999 suggest that allocation of EU funds is universally influenced by political considerations, but the political influence varies across countries as well as across EU regions and it is the strongest in the case of EU regions targeted as Objective 1 regions (i.e., the least developed regions).

Banaszewska-Bischoff (2017) shows that the EU fund gap is considerable in Poland with politically aligned municipalities receiving between 14 and 34% higher amounts of transfers than their non-aligned peers. Dellmuth-Stoffel (2012) demonstrates that politically alignment with the federal government leads to an increase of EU co-financed funds by ca. 8%. Muraközy and Telegdy (2016) uses EU co-financed project-level data from Hungary and concludes that politically aligned municipalities benefited of significantly higher per capita EU transfers (between 11-20%) in the period 2006-2014 and this positive alignment effects are even stronger in the case of public applicants (as opposed to private grantees in the same municipalities) and of highly visible, public infrastructure projects (esp., urban infrastructure, public transport). Kálmán (2011) using also project-level administrative data from the period 2004-2008 shows that grant winning probabilities are significantly higher for same-colour municipalities. Bloom and Petrova (2013) shows additional higher per capita transfers in Bulgaria and Lithuania.

For an overview on the empirical evidence on the use of fiscal transfers, the country examples and the methods and indicators used by the relevant studies, see Annex I.

II.3. Opportunistic political behaviour – further motivations

There is a large literature on distributive politics documenting *regional favouritism*. First, Bates (1974) provided evidence on ethnic competition for the benefits of power in African countries. Ferejohn (1974) and Goss (1972) used project level data from the US to show that US delegates use specific public infrastructure projects (e.g., building of harbours, defence facilities, etc.) to beat their local political competitors (*pork-barrel politics*). Kramon and Posner (2013) find that favouritism is prevalent in six African countries, but it varies considerably across policy areas and primarily driven by ethnic considerations (rather than simply political ones).

Hodler (201) takes a systematic look at regional favouritism in a large and diverse sample of countries that includes democracies as well as autocracies. Interestingly, they use information about the birthplaces of political leaders and satellite data on nighttime light intensity to study whether subnational administrative regions have more intense nighttime light when they are the birth region of the incumbent political decision maker. As they argue, politicians may favour their birth region because they want to divert public funds in their region, primarily benefiting their family or clan members, or for corrupted reasons, some local entrepreneurs. Based on a panel data from 126 countries with observations from 1992 to 2009, they find that subnational regions have more intense nighttime light when being the birth region of the incumbent political leader. While cross-checking further country characteristics they find that regional favouritism is most prevalent in countries with weak political institutions and poorly educated citizens. In addition, inflow of foreign aid and rents from natural resources (e.g., oil) in weakly institutionalised countries tend to boost regional favouritism even further.

Normative theories of regulations, new institutionalism, and corruption control theories

A vast body of theoretical and empirical literature has sought to explore the role of contextual factors that enable or hinder political favouritism, or forms of corruption defined broadly in a given country. Here, we will concentrate on the so-called institutional factors, but will also briefly discuss the role of further factors, like socio-cultural, economic, demographic, and geographic ones, which seem to be key in understanding the types and reasons of political favouritism as well as its limitations and potential solutions.

Political corruption is broadly defined as „the misuse of public power for private benefit" (Lambsdorff 2006:1). While there is no singular model on explaining the determinants of political corruption in the literature, it is a common understanding, that contextual factors do have a role and can have an impact

on the extent and intensity of corrupted behaviour by political decision makers. Furthermore, while contextual factors (such as, public values and attitudes, socio-economic characteristics of constituencies, or the availability of natural resources) can change and can be changed, political actors are usually not able to alter them over the course of a few years – these are rather exogeneous factors out of the reach of the ruling government (unless systemic shifts or shocks emerge).
Institutions are arguably among the most important determinants of the political elites' ability to acquire wealth and gain power. In their influential book Why nations fail?, Acemoglu and Robinson (2013) argue that economic and political institutions (and synergies between them) determine whether political power and economic wealth is distributed evenly among citizens or concentrated within the hands of a smaller (and with time ever-narrowing) groups. Countries with weaker constitutional checks and balances and public institutions keeping an eye on the incumbent elites (key decision makers) may fail to grow steadily and may be less resistant to external shocks than those with the opposite features.

Consequently, various characteristics of the institutional context have been shown to limit corrupted behaviour in the political arena. Lambsdorff (2006) suggests that while democracy lowers the risk of corruption, this relation is not straightforward. Countries with more established democratic institutions or electoral systems with high rates of participation experience significantly lower levels of corruption than others. Medium level democracies, however, may even have more corruption than non-democratic ones. Notably, unitary (as opposed to federal) and parliamentary (as opposed to presidential) forms of government are associated with lower levels of political corruption (Gerring & Thacker, 2004).

Dávid-Barrett & Fazekas (2020) points out that 'autonomous institutions', such as civil society organizations that are able to reveal misconduct and hold political or public actors accountable decrease corruption. Unlimited press freedom and independence of the judiciary and prosecutions are also positively associated with stronger public control on corrupt political behaviour (Lambsdorff, 2006). In a large-scale cross-country panel study Elbahnasawy & Revier (2012) have shown that the perception of strong support for rule of law and free expression and accountability are also associated with low levels of corruption.

It may seem a straightforward conclusion that the implementation of one or more of the above institutional elements can effectively reduce corruption. However, Mungiu-Pippidi (2013) argues that present organizational arrangements should not be viewed as the ultimate cause of successful corruption control. Scrutinizing Denmark, she argues that it is rather historical processes and sustained efforts that determine countries' present performance regarding corruption control. Consistent with these arguments, empirical findings show that democratic institutions curb corruption only if preserved for long periods (Lambsdorff, 2006; Serra, 2006).

Institutional factors are an important determinant of the efficient allocation of EU development and cohesions funds. Ederveen et al. (2006) analysed the potential factors of the effective use of EU structural funds and found that after conditioning on institutional quality EU structural funds proved to be effective.

Another branch of the literature analysis how cultural and social factors have an effect on the occurrence and types of political corruption. First, strong empirical evidence underpins that there is a reciprocal causal relationship between corruption and social trust. Low social trust, high levels of corruption and high-income inequality create a vicious circle (often referred to as the inequality trap). Importantly, the relationship only seems to be strong in democracies (You, 2017). Second, there seems to be a positive association between acceptance of hierarchies and higher levels of corruption (Hofstede et al 2010, Lambsdorff, 2006). Third, lower levels of educational attainment seem to provide better opportunities for regional favouritism (Hodler & Raschky, 2014). Finally, some aspects of

historical cultural heritage, such as Protestantism (consistent with the Weberian theory of protestant ethics) and colonial past were also found to have an effect (negative and positive, respectively) on corruption (Serra, 2006).

Various economic, demographic, and geographic factors have also been shown to have an effect. Studies have found that rich countries experience lower levels of corruption and political favouritism (Elbahnasawy & Revier, 2012; Hodler & Raschky, 2014; Serra, 2006).

International development aids seem to increase corruption significantly by boosting opportunities for politicians to acquire public funds and further consolidate their political power. While the relationship seems more straightforward in third world countries characterised by excessively weak political institutions and lack of accountability (Acemoglu & Robinson, 2013; Asongu, 2012), other studies have also revealed that a similar pattern prevails in developed countries, also and within the EU (Fazekas et al., 2013; Fazekas & King, 2019)

As suggested by theories of corruption control so called institutional solutions can be effective in constraining political decision makers in their efforts to serve their own or their clienteles' interest. While the access to natural resources, the availability of large development funds (international aids) boosts the opportunities for corrupt behaviour; for example, international commitments (such as, compliance with EU audit requirements in case of development aids) or independent, autonomous institutions and actors (such as, state audit office, competition authority, public regulatory agencies; or even civil society or business organisations) might be able to scrutinize and hold in check the excessive exercise of political power and hold misconduct to account. Social outcomes strongly depend on the balance of these opportunities and constraints in a country. Restricted opportunities create less chance for political favouritism. The control and accountability mechanisms can, however, be also compromised. Political patrons in power may have the option to influence these institutions and change the way how they operate. They may cut their budgets or their access to government funds, they may appoint cronies or even family members to the top leader positions, or to cut short their opportunities to consult and to access information on the details of specific government decisions. Disabling these institutional constraints further enhances the ability of the politicians in power to corrupt behaviour.

II.4. Opportunistic public regulators, capture, and clientelism

The positive, interest-based theories of regulation explain why political or partisan alignments can play an important role in market regulatory processes that result in less than competitive market conditions or in public services or goods failing to meet minimum safety or quality standards. As opposed to the normative approaches, in these models public regulators may be easily influenced by specific (eventually party-affiliated) business interests to pose various entry barriers, to minimise market transparency and predictability (*regulatory capture,* Becker 1983), or *vice versa* to reshuffle whole markets or market segments by nationalisation and centralisation (for example by setting up large national companies in service areas which have been previously characterised by local/ regional service providers owned by municipalities or supervised by municipalities *via* outsourcing, cf *state capture*, Fazekas & King, 2019).

The *concept of clientelism* was introduced by Hicken (2011) to describe government practices when political elites allocate public resources or manipulate public contracting processes in exchange for political support. Furthermore, Ganev (2015) emphasises that politicians may abuse their patronage power to design privatization programmes so as to ensure that public assets are sold to their friends or party allies. Politicians may also abuse their patronage to appoint allies, friends to civil service positions (Meyer Sahling and Veen 2012). Political decision makers may be motivated to corrupt market regulatory or public procurement processes to buy loyalty which in turn helps them consolidate

their power and (re)strengthen their advantage over political competitors (Grodeland 2010, Hamilton 2010).

But they can also be motivated to strategically allocate public resources or directly influence the operation of government agencies to channel private gains to themselves *via* familial links. While the motivations of the political patrons differ between the first case often referred as *cronyism* and the second case usually labelled as *nepotism* (notably, as specific types of clientelism), both these cases usually lead to corrupt or socially not desirable outcomes (Keefer-Vlaicu 2008).

As many papers discuss, public procurement procedures may be entry points for political patrons to treat politically connected firms preferably. When politicians follow other than public interest in the allocation of public resources and award politically connected firms with favourable treatment in government contracts, they create significant distortions since such firms can be awarded that cannot absorb the public funds the most effectively, and these inefficient investments only harm competition and innovation (Brogaard et al., 2015).

Corruption and the lack of competition may be the main explaining factors of inefficient public spendings. In order to address these issues in the process of public procurement, Szűcs (2018) suggests that introduction of formalized procedures can limit procurers' engagement in political favouritism. Usually, open auctions (more formalized and transparent) or direct negotiations (less formalized and transparent) are used to collect the price offers and/ or technical proposals from the bidders. Direct negotiations provide more discretion and latitude for public procurers. Although the previous one is associated with higher administrative costs, it can also impede political manipulations more effectively.

Procurement outcomes can also be different in formalized and less formalized environment. Based on Hungarian procurement data Szűcs (2017) shows that procurers tend to choose high-discretion procedures if at least one of the bidder companies is politically connected to the governing party. Furthermore, procurers tended to choose smaller, younger, and less productive firms which are domestic and politically connected in Hungary. Due to the distortions and political motivations, the normalized price of the Hungarian contracts was on average higher in high-discretion than low-discretion procedures.

Palguta and Pertold (2014) in their paper analysing public procurement data from the Czech Republic suggests that tactical break up of public procurement transactions and thereby manipulation of the expected contract values to avoid more competitive procedures (see, auctions) prevailed in the Czech Republic. Chong et al (2011) studies public procurement contracts undertaken by French municipalities and finds a positive correlation between political competition and the use of auction. Tóth and Hajdú (2017) evidenced similar anomalies in the contract values in a Hungarian dataset on public offer prices and link it to the increased risk of political corruption. Also, in the case of UK public contracts with politically aligned companies (cronies) are observable (10%), but less than that in the case of Hungary (ca. 50%) by a comparative study run by Barrett and Fazekas 2020.

By introducing a ban on private corporate financing of politics can contribute to higher competition and decrease the advantage of the incumbent in public procurements. Firms can gain advantage in the procurement process by donating to governing political parties. This applies especially to less restrictive procedures. Studies analysing the ban on corporate donation and its effects on firms bidding behaviour find that corporate donations for example in the Czech Republic and Lithuania are effective tools for buying preferential treatment in procurement auctions (Titl-Geys 2018, Baltrunaite 2016).

The mechanisms through which procurers can favour aligned, donor firms are price information channel and contract design channel. Public agencies either manipulate the contract design and the

requirements thus only donor firms can qualify for tender calls or provide inside details and information to contributing firms about the level of competing bids. The results suggest that selected firms who enjoy the benefits of this form of favouritism are generally featured as small with anonymous owners (Palguta-Pertold, 2014).

III. Types of political favouritism – checklist for a country assessment

Based on our comprehensive (though not completely exhaustive) literature review we find that

- The way how the decision makers can exert or amplify their political or partisan influence, that means the policy tools or instruments they use, and
- The ultimate goals and motivations of the main political decision makers at the central government level

are key in understanding political favouritism and properly distinguishing various types or cases of this phenomenon.

First, largely following the classification of Hood et al (2007) we define **three types of policy tools** (or instruments, respectively). i) *Fiscal tools* provide opportunity for the central government to directly influence the public budgets of the local governments (*via* central transfers, taxation, or debt/deficit management opportunities). ii) We refer to *regulatory tools* when the central government is using any type of legislative actions to shape the way how public authorities (see also municipalities) and publicly owned companies (see, municipality-owned companies) are operating; or how the transactions between public and private entities are regulated (see primarily the cases of outsourcing and public contracting). Besides typically issuing primary or secondary legislation, for example changing licensing criteria or public contracting rules and procedures in line with party preferences belong to this category. iii) We refer to *institutional or organisational tools* when we consider and assess the conditions under which key public institutions are operating – we mean here public institutions which interact with local governments (see, for example state audit office, competition authority or public regulatory agencies) or public organisations which operate also at the local level (see, public companies or government agencies providing local services, such as social services, public housing or other types of public services).

It should be noted that, in practice these tools co-exist and can simultaneously be used in specific cases. Studies focusing on public procurement show how the tactical allocation of public funds (typically, a fiscal tool) can be enhanced by opting for less open and competitive public procurement procedures (c.f., regulatory tool) and / or appointing a politically linked leader to the public body supervising and coordinating the public procurement transactions nationwide (c.f., an institutional tool). Nevertheless, we think it is important to take these various instruments apart at least for the sake of analytical clarity and for the benefit to differentiate the depth or extent of political favouritism at the end of the day.

It also seems that fiscal tools establish the most direct and more common instrument to exert political influence (at least, the empirical evidence is more overwhelming for this instrument). Regulatory and institutional tools provide a more indirect though not evidently less effective avenue for political favouritism. Apparently, measurability and external validity problems (see, lack or limited opportunity to quantify the government actions taken and its effects; and relevance of one observed case in other country context) challenge the researchers in their effort to capture the full extent and impacts of the application of these tools.

Second, it is crucial to make assumptions about what is **the goal of political decision makers at the central level**. We explored three major theoretical approaches in the academic discussion on favouritism - each of them working with different assumptions on the goals and motivations of the political decision makers – as summarised in the table below.

Table 1. Main theoretical approaches on goals of political decision makers

Goals and motivations of the political decision-makers	Social welfare maximisation	Vote-maximisation/ mobilisation for the party	Other motivations (Pure self- or group-interest, geographic considerations)
Theoretical models, concepts	Fiscal federalism, competitive federalism, corrective place-based policies *(Dixit-Londregan 1998, Gruber 2016, Inman-Rubinfeld 1997, Oates 1999, Rodden 2009)*	Core voter model /same-colour favouritism (*Cox-McCubbins 1986)* Swing voter model *(Dixit-Londregan 1996, 1998; Lindbeck-Weinbull 1987)* Mixed models (maximising overall vote share, *Dahlberg-Johansson 2002, Fiorillo-Merkaj)* Tactical use of intergovernmental transfers (Alperovich 1984, *Gonschorek 2021*)	Pork barrel politics (*Ferejohn 1974, Goss 1972)* Birthplace or regional favouritism (*Hodler-Raschky 2014)* Ethnic favouritisms (*Bates 1974, Burgess et al 2015, Kramon and Posner 2013*)
	Normative theories of regulations and corruption control theories (*Lambsdorff 2006, Mungiu-Pippidi 2013, Serra 2006*)	Regulatory and state capture theories *(Becker 1983, Becker-Stigler 1974, Mungiu-Pippidi-Acar 2015)* Clientelism – esp. cronyism (*Hicken 2011, Keefer-Vlaicu 2008)*	Grand corruption approaches, clientelism, nepotism (Abramo-Angelo-Rosati 2014)

Note: we highlight here the first, seminal papers and studies discussing the models and concepts listed here

The normative theories in welfare economics (especially fiscal federalism) and regulatory studies suggest that central decision makers (i.e., the Prime Minister, line ministers, or even members of parliament) strive to *maximise the social welfare* while allocating resources or regulating markets in their domain. The cohesion policy objectives of the European Union are excellent examples originally for place-based policies that may correct market misallocations and failures. This normative starting point is however effectively challenged by public choice approaches putting forward arguments in favour of politically induced biases in allocations of government funds due to *politician's motivation to maximise the expected votes cast for their own parties by mobilising their local party base (core-supporter) and/ or additional members of their own constituencies* (e.g. undecided citizens or local entrepreneurs with an economic interests in providing public services and goods at the local level, see *swing voter models*)**.** Some other papers point to other, than political motivations as yet-further alternatives to the social welfare maximising politician.

In sum, considerations on political goals and motivations help us to understand why key political decision makers (cf., political elites) do, what they do; and by paying attention to the different policy tools, we can highlight in how many ways political influence can be exerted and realised.

In chapters I and II, we have mapped the theoretical approaches discussing and the empirical studies collecting evidence on the various types of political favouritism. We paid special attention to partisan biases and political alignment effects emerging in the central *versus* local government relationships. While central decision makers, political patrons possess a colourful and rich set of policy tools at their hands, the use of financial tools seem to dominate (or at least, the corresponding empirical evidence abounds).

Following this logic and by combining these two dimensions, we propose the following typology. As indicated in the table below, in each cell of the table we list and highlight the example / case reference or empirical finding potentially relevant for the assessment of Hungarian case.

Table 2: Major types, examples of and country references for political favouritism

	Goals and motivations of the political decision-makers		
Policy tools used by the political decision-makers	***Social welfare maximisation***	***Vote-maximisation/ mobilisation***	***Other motivations (Pure self- or group-interest, geographic considerations)***
Fiscal tools	Equity- and efficiency-driven allocation of: *(Un)conditional grants and other types of fiscal assistance *Earmarked grants *Matching grants *Formula-based transfers Based on local socio-economic parameters and in line with local needs	**Allocating EU development funds to constituencies with higher share of vote for the incumbent party (HU, BU, DE, IT, LV, PL, PT – core voter hypothesis confirmed)** **Tactical or discretionary transfer of earmarked grants/public investments in favour of core voter constituencies (US, Brazil, Chile, Turkey/public infrastructure programmes, Ghana & Senegal/ foreign aids – funding gaps vary across studies, but significant)** **Tactical or discretionary transfer of both total and conditional or earmarked grants in favour of swing voters (Indonesia/public infrastructure projects; Sweden/ public employment projects, Portugal, Sweden/total grants; Spain/investment projects) - significantly higher re-election probabilities or per capita grants**	*Localised public programmes - e.g., public education or housing or infrastructure investments or better provision of public services (e.g., public lightening) (Several developing countries in Africa – see cross-country analysis, case studies from Zambia, Sri Lanka, Bolivia, India) *Ethnically targeted public investments (road building) and provision of public education (Kenya – doubled spending on road building, higher probability of enrolment in public education)

		Partisan bias in definition of formula-based or conditional transfers (Albania, Brazil, Indonesia, and developing countries – room to manipulate weights, factors and/or data used in the calculation/in the formula) **Delay in transferring funds to municipalities with mayor from opposition parties (Uganda)**	
	*Conditional deficit refinancing schemes, hard budget constraints	**Partisan bias in formulation of debt refinancing schemes and in access to municipality loans (HU, Greece – significantly better access to loans)**	*No relevant empirical papers found*
	*Formulation of local tax autonomy (also in line with subsidiarity)	**Restrictions to local tax autonomy based on political selectivity:** ***Reducing the local tax base** ***Elimination of local taxes (potentially harming larger/better-off municipalities under the political control of the opposition parties) (Uganda)**	Use of tax exemptions and allowances in sectors dominant in core constituencies (Developing countries in Africa - cross-country analysis)
		Tactical and discretionary allocation of state aid (e.g., foreign direct	*No relevant empirical papers found*

		investment promotion or public investment projects)	
Regulatory tools	Predictable and transparent decision-making and allocation mechanism in the intragovernmental transfers Use of performance incentives in the public sector (*via* performance measurement, client orientation, and public disclosure on access and quality of public services and goods) Transparent and predictable legislation and regulatory processes	**Political bias in the evaluation of public tendering (e.g., professional and financial eligibility criteria)** **(CZ, HU – motivations may overlap and are not clarified in the country case studies)**	
	Competition enhancing regulations in local sectors and in public procurements tendered by municipalities Use of performance incentives in the public sector (*via* performance-dependent state aid, client orientation, and public disclosure on access and quality of public services and goods)	**Avoiding open and competitive tender types (e.g., use of auctions) or high thresholds for transparency** **(HU, CZ, UK – though, with a variance in the extent (b/w 10 and 50% of public contracts completed with politically favoured companies)** **Overpricing of public contracts – e.g., concessions, outsourcing of public services** **(HU – in a range of 6 through 10 times higher prices than benchmark cases)** **Nationalisation /centralisation of sectors previously managed by local**	

		companies (either local/regional municipality-owned or private companies) **(HU: public utilities)**	
	Transparent and predictable legislative and regulatory processes	**Using MPs as first drafters of bills** **Controlling parliamentary timetable to minimise public scrutiny** **(HU case study)**	
Institutional / organisational tools	Institutional controls as checks or constraints to opportunistic behaviour *Better institutional quality (higher scores for quality of public administration) – more effective use of EU funds (cross country analysis by Ederveen et al 2006 – old EU Members States)	**Political appointments and politically biased recruitments and promotion routes in key public control institutions (state audit office, competition or regulatory agencies, national public utility companies) and in government positions in charge of distributive politics** **(Mostly county case studies from: Brazil, Germany, India, and HU)** **Cutting budgets of key public institutions** **(Lack of cross-country empirical evidence, though case studies from developing countries/Africa, and HU)**	Appointment of family members/relatives/ethnic affiliates to key positions – s source for social interest *Conflict of self/group-interest *versus* social interest (misuse of public resources), or *Deteriorating quality of public services /goods due to lack of competence, (quasi) competitive managerial skills (Case studies from: UA, HU)

IV. Descriptive analysis of the use of EU funds – Pilot case: the Territorial and Settlement Development Programme in Hungary

In chapters I and II, we have mapped the theoretical approaches discussing and the empirical studies collecting evidence on the various types of political favouritism. We paid special attention to partisan biases and political alignment effects emerging in the central *versus* local government relationships. While central decision makers, political patrons possess a colourful and rich set of policy tools at their hands, the use of financial tools seem to dominate (or at least, the corresponding empirical evidence abounds).

At the same time, in Hungary as much as in the new EU Member States considerable sums of public funds mainly co-financed by the budget of the European Union have been allocated to national and local development projects aimed at boosting local development and accelerating regional/national convergence. Amongst the largest of such financial schemes are the EU Structural and Investment Funds (hereinafter referred to as EU funds), which equals to the 31 percent of the EU budget and are channelled towards less developed EU regions to enhance economic growth, sustainable development, and social cohesion.[2] In this period, Hungary benefited from EU funds amounting to EUR 27,2 billion and launched public calls, tenders, and large-scale public investment projects running through the end of 2022 to absorb these funds.[3] While these funds are slightly less than 4 percent per national GDP per year, the EU co-financed allocations matched with some national funds (at max. plus 15 percent) have amounted to 43 percent of the total government investments in Hungary since 2014.[4] This is a substantial amount and share of public money the effectiveness of which is greatly depends on the efficient distribution of these funds and on the fact whether the allocation of grants and other financial instruments co-financed by the EU is based on economic and social rationale rather than political interest.

For the sake of external validity (see, the extensive quantitative evidence on political manipulation of EU funds, as financial tools) and that of relevance (cf. the crucial role of EU funds in the Hungarian public investment policies in the last period), we narrowed down the focus of the national assessment on the use of EU funds in Hungary. Due to the project (budget) limits and our focus on political biases shown in favour of municipalities aligned with the central government, we took the Territorial and Settlement Development Operational Programme (*Terület és település-fejlesztési Operatív Program, TOP)* as the pilot example to check for any sign of potential political favouritism – at least, at the level of descriptive (even if not causal) analysis.

This choice is justified by the fact that this programme targets primarily local government entities (municipalities as well as public companies and institutions owned and managed by municipalities), and also by absorption data which reflects a relatively late take up of its allocations by local stakeholders (see, later than 2014 kick off of the programme spending and lower than 100 percent decision rate before 2018[5]).

In the following, first we introduce the TOP programme goals, priorities and main measures launched by Hungarian central authorities. Second, we present our analytical approach along with severe caveats on methodological challenges, data availability and data quality. Third, we present our

[2] https://ec.europa.eu/info/publications/multiannual-financial-framework-2021-2027-commitments_en
[3] https://cohesiondata.ec.europa.eu/countries/HU
[4] https://ec.europa.eu/info/sites/default/files/factsheet_growing-together_hu_hu_0.pdf
[5] The decision rate shows how many percent of the planned programme allocations have been committed by specific project proposals meeting evaluation criteria and in progress of being supported by government allocations. For more on actual programme implementation process, see: https://cohesiondata.ec.europa.eu/countries/HU

preliminary results and pave the way for the preparation of a more comprehensive, data-driven quantitative analysis in the future.

IV.1. TOP in a nutshell

The Territorial and Settlement Development Operational Programme (hereinafter referred to as TOP) was designed to support regional, decentralised economic development and boost local employment in the six less developed NUTS 2 regions in Hungary.[6] The TOP allocates close to EUR 4 billion to integrated sustainable urban development actions in the framework of the following priorities:

1. Boosting economic growth and local employment (for example, by giving support to municipalities to build industrial parks, incubator houses, and providing various investment incentives)
2. Developing green urban areas, sustainable urban transport, and small-scale environmental protection infrastructure
3. Supporting socially and environmentally sustainable tourism development
4. Improving energy efficiency of local government buildings (e.g., by energy modernisation, renewable energy supply systems
5. Expanding public services to promote social inclusion (e.g., *via* expansion and setting up of basic social services, local nurseries)
6. Developing deprived urban areas, and
7. Strengthening local communities and cooperation (by supporting community-led local development projects).

While most of the TOP funds originate from the EU (85,2%), they are distributed exclusively by the Managing Authority at the central level (see, one department at the Ministry of Finance, following the 2018 national elections[7]) under limited supervision by the European Commission. As it is the case with other operational programmes, the decisions on fund allocations are kept at the central government level, providing thus an opportunity to favour some and hamper other municipalities receiving EU funds.

For a comprehensive overview of all the OP measures, specific objectives, the type of supports, minimum and maximum funds per measure available, and the measure-specific allocation procedures, see Annex II.

IV.2. National context – setbacks to decentralisation and fiscal autonomy at the local level

The Hungarian government launched a comprehensive public administration reform in the period 2010-2014 that reshuffled the basic pattern of local autonomy and weakened democratic decentralisation in Hungary. The reform was driven by the idea of centralisation and by the (strong political) preferences of the coalition parties winning the 2010 national elections (and in incumbent position, still) to reduce community-driven, local legitimacy. Description of the overall public administration reform process goes beyond the scope of our analysis, though we highlight here two aspects – most relevant to our analysis.

Centralisation and politicisation tendencies

The central government transferred several, previously local competencies of directly elected bodies to centrally controlled government agencies or to mezzo-level (county- or district-level) government

[6] For the definition of NUTS 2 EU regions and for the presentation of the Hungarian NUTS_2 regions, see: https://ec.europa.eu/eurostat/web/nuts/background, and https://ec.europa.eu/regional_policy/en/atlas/beneficiaries/hungary

[7] OP-managing tasks and responsibilities were subject to revision following the 2018 national elections and subsequent government re-organisation. In the period 2014-2018, the Ministry of National Economy (*Nemzetgazdasági* Minisztérium) was in charge of managing TOP measures.

offices. Most importantly, the operation of primary and secondary schools and hospitals, previously owned and managed by municipalities, was delegated to government agencies newly set up and supervised by ministries. While the provision of these public services remained at the local level, the coordination of daily operations and key decisions in financial management turned to the task of these central agencies.[8]

As empirical evidence suggests, policy coordination often got broken between the central and local level, this centralisation was accompanied by strong politicisation, as well. For example, primary school or hospital directors are directly appointed by ministers and the involvement of civil stakeholders, locally autonomous organisations (e.g., parents' associations or civil society organisations active at local level with youth or with disadvantaged groups, such as Roma) in decision making has radically decreased (Hajnal-Rosta 2019, Pálné Kovács 2014).

Cutting back fiscal autonomy and financial latitude at local level

Traditionally, following 1990 the degree of fiscal autonomy at the local level was strong in Hungary. The decentralisation reforms following the transition from the socialist regime focused on rules-based allocation of central transfers, on block grants[9] (as opposed to earmarked grants), on the possibility of raising own revenues by the municipalities. The ultimate aim was to boost (yardstick) competition between municipalities.

Over the last decades, two major amendments have been introduced to this originally highly decentralised (though, critically fragmented) system of local governments: first in 1996, when new local debt settlement rules have been adopted (refining the insolvency procedures in the case of local governments). Second, in line with the general trend towards centralisation and deconcentration of the early 2010s reforms when preference was given to centrally controlled agencies and deconcentrated administrative bodies over municipal services (Vasvári 2020a).

Accordingly, the local government funding and the fiscal autonomy of municipalities have radically decreased. For example, free-to-use or at least, relatively open-end block grant options have been eliminated and primarily earmarked grants took over the central transfer system. Previously shared tax authority was eliminated. The key source of local revenues, the personal income tax disappeared from the local budgets, and following a comprehensive and universal bailout package in 2013, main decisions in local debt management got conditional on prior approval by the central government (Hajnal-Rosta 2019, Sivák 2014, Vasvári 2020b).

As matter of fact, Vasvári (2018) shows based on data on local borrowings between 2012 and 2017, that applications of government-affiliated municipalities were more likely approved by the central government than those of municipalities with majors from opposition parties. In addition, politically aligned municipalities face also softer budget constraints due to access to more discretionary funds redistributed centrally (financed with by the central budget or co-financed by EU funds) and they have statistically higher volume of local development projects due to higher overall capital expenses in the period 2015 and 2017 (Vasvári 2020a).

The limitations to municipality-level public finance considerations have just got stronger during the Covid-19 crisis period and especially, following the 2019 local elections (when opposition parties won in Budapest and in key Budapest districts, and in some county centres). Anecdotical evidence suggests, though it is not supported by empirical evidence yet, that the more recent "crisis measures" posed

[8] 2011. évi CLXXXIX. Törvény Magyarország helyi önkormányzatairól, https://njt.hu/jogszabaly/2011-189-00-00; Accessed: 31 March 2022.

[9] Block grants are centrally distributed grants without any earmarks – that means, with no determination of the specific purpose of these transfers. Block grants provide the relatively largest flexibility to municipalities in targeting and using these funds and the best opportunity to adjust local supports and services to the needs of the local community.

further challenges to the daily operations and financial management of municipalities as well as to the funding of municipality-level development projects.

Notably, while these most recent measures hit all municipalities, the most important ones were selective. According to Hajnal et al (2021) while the centralisation of the previously local share (40%) in vehicle taxes deprived mostly small settlements, the temporary suspension of the local tourist tax, of the parking fees, and of the fee for the use of public premises hit municipalities of larger settlements, county centres, and in particular the capital city and its districts definitely harder. These local revenue sources constitute substantially larger share in own sources in the case of these types of municipalities than in the case of their smaller peers. These local revenue sources could also play a role in financing locally driven development – also in the scenario when centrally distributed development subsidies are reduced, or not available. There is, however, no empirical evidence yet available on the net local fiscal effect of these various measures.

For the list of the central government measures affecting the fiscal autonomy of municipalities and launched following the October 2019 local elections, and partly put into force as “emergency measures” in response to the Covid-19 crisis, see the table below.

Table 3. List of central government measures affecting the financial autonomy of Hungarian municipalities, 2019-2021

Date of decision	Policy area – Municipality task affected	Description of measure	Legal reference
January 2020	Public investment – centralisation of the management of large-scale, local construction projects	Management of local construction projects co-financed by public subsidies or loans and with a budget over HUF 700 million (ca. EUR 2,2 million) delegated to a central agency (*Beruházási Ügynökség*)	Specific law[10] and decree[11]
April 2020	Local taxation - cutting revenues	Transfer of jurisdiction over so-called special economic areas (along with the corresponding local tax revenues) from local municipalities to county-level governments	Special decree[12]
April 2020	Local taxation - cutting revenues	40% share of revenues from the local vehicle tax previously left with municipalities is shifted to a central government fund	Special decree[13]
April 2020 (*Effective between May*	Local taxation – cutting revenues	Temporary suspension of the payment of local tourist tax (*helyi idegenforgalmi adó*)	Special decrees[14]

[10] 2018. évi CXXXVIII. törvény az állami magasépítési beruházások megvalósításáról [Act 138 of 2018 on the Execution of Governmental Structural Architecture Investments] [online] Available at: https://net.jogtar.hu/jogszabaly?docid=A1800138.TV&timeshift=20200101 (Accessed: 31 March 2022).

[11] 299/2018. (XII. 27.) Korm. Rendelet az állami magasépítési beruházásokról [Government Decree 299/2018 (12.27) on Governmental Structural Architecture Investments] [online] Available at: https://net.jogtar.hu/jogszabaly?docid=A1800299.KOR (Accessed: 31 March 2022).

[12] 35/2020. (IV. 17.) Korm. Rendelet a veszélyhelyzettel összefüggésben a nemzetgazdaság stabilitásának érdekében szükséges intézkedésekről (Govt.Decree 35/2020. (IV. 17.) On the necessary measures needed for the stability of the national economy. https://net.jogtar.hu/jogszabaly?docid=A2000135.KOR (Accessed: 31 March 2022).

[13] 92/2020 (IV.6.) Kormányrendelet a Magyarország 2020.évi központi költségvetésének a veszélyhelyzettel összefüggő eltérő szabályairól – in effect between 25 May 2020 – 17 June 2020, https://njt.hu/jogszabaly/2020-92-20-22 (Accessed: 31 March 2022)

[14] 140/220 (IV.21.) Kormányrendelet a Gazdaságvédelmi Akcióterv keretében a koronavírus-járvány gazdasági hatásainak mérséklése érdekében szükséges adózási könnyítésekről - https://njt.hu/jogszabaly/2020-87-20-22: (Accessed: 31 March 2022).

and December 2020)			
April 2020 (*Effective between May and June 2020, and between November 2020 and May 2021)*	Local taxation – cutting revenues	Temporary suspension of the payment of car parking fees (*parkolási díj*), and fee for use of public premises (*közterület-használati díj)*	Special decrees[15]
December 2020	Local taxation – cutting revenues	Cutting the effective tax rate for the local business tax (*helyi iparűzési adó*) – reducing payments by 50%	Special decree[16]
December 2020	Local taxation – limiting local tax authority	Ban on raising new local taxes or increasing the local tax rates effective in 2020	Special decree[17]
December 2020	Asset management – cutting revenues	Ban on raising the rent fees of municipality-owned real estates	Special decree, law[18]

[15] 87/2020. (IV. 5.) Kormányrendelet a várakozási díj megfizetésének a veszélyhelyzet során alkalmazandó eltérő szabályairól - https://njt.hu/jogszabaly/2020-87-20-22: 168/2020. (IV. 30.) Korm. rendelet a védelmi intézkedésekről - https://njt.hu/jogszabaly/2020-168-20-22: (All accessed: 31 March 2022).

[16] 639/2020. (XII. 22.) Korm. rendelet a koronavírus-világjárvány nemzetgazdaságot érintő hatásának enyhítése érdekében szükséges egyes intézkedésekről, https://njt.hu/jogszabaly/2020-639-20-22; (Accessed: 31 March 2022).

[17] 535/2020. (XII. 1.) Korm. rendelet a koronavírus-világjárvány nemzetgazdaságot érintő hatásának enyhítése érdekében szükséges helyi adó intézkedésről - https://njt.hu/jogszabaly/2020-535-20-22: (Accessed: 31 March 2022).

[18] 2021.évi XCIX. törvény a veszélyhelyzettel összefüggő átmeneti szabályokról, https://njt.hu/jogszabaly/2021-99-00-00; (Accessed: 31 March 2022).

2021	Discretionary fiscal transfers – compensatory revenues	Introduction of selective central transfers in compensation to cutting the effective tax rates for local business taxes – universal transfer in case of settlements with less than 25 000 inhabitants, and transfer subject to discretionary decision in case of settlements above this threshold	Special decree[19]
2021	Intragovernmental vertical payment – contribution to the central budget	Extension of the eligibility of the so-called solidarity contribution (*szolidaritási hozzájárulás*) by lowering the threshold value (defined in local business tax revenues per capita)	Budget law[20]

Source: K-Monitor 2022, Hajnal et al 2021.

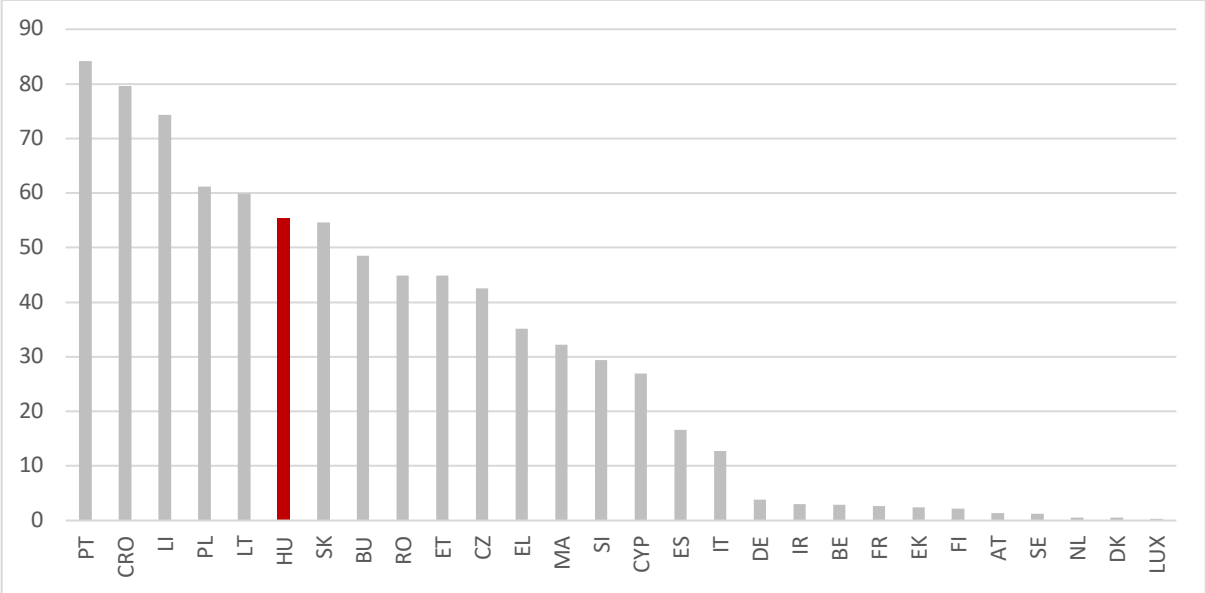
[19] 4/2021. (I. 14.) Korm. rendelet a veszélyhelyzettel összefüggésben a huszonötezer főnél nem nagyobb lakosságszámú települési önkormányzatok támogatási programjáról, https://njt.hu/jogszabaly/2021-4-20-22; (Accessed: 31 March 2022).

[20] 2021.évi XC. törvény Magyarország 2022. évi központi költségvetéséről, https://njt.hu/jogszabaly/2021-90-00-00; (Accessed: 31 March 2022).

Significance of EU co-financed funds in public investment

The EU funds represent a substantial share in public investment in Hungary. The EU cohesion policy is the main investment policy driver in most new Member States, but especially in Hungary where this provided funding equivalent to 55.46% of government capital investment over the period 2015-2017 (see, Figure 1 below).

Figure 1. Share of EU Cohesion Policy per Member State to public investment, 2015-2017



Source: EU Cohesion data portal, https://cohesiondata.ec.europa.eu/Other/-of-cohesion-policy-funding-in-public-investment-p/7bw6-2dw3

While Hungary belongs to the cluster of countries which rely heavily on EU funds, the effectiveness of the use of these funds is highly dependent on the quality of public institutions and that of public governance mechanisms linked with the allocation of these funds (as the literature review in Chapter I clearly implies). Generally, Hungary does not perform well in cross-country comparison in this respect. The most recent index on government institutional quality shows even further drops (Charron et al. 2021).

The actual size of the geographically targeted EU transfers, the effective fiscal constraints experienced by local governments in the period 2019-2021 due to the Covid-19 crisis measures and the constantly deteriorating (comparatively) low quality of public institutions in Hungary can make the EU funds especially subject to political favouritism and consequently, misallocation.

IV.3. Evidence on political favouritism in EU allocations in Hungary

As we have seen in Chapter 1 the allocation of EU funds has generated particular attention in academic research. We also find evidence for the political alignment effects in Hungary. These empirical studies focus, however, on earlier periods, test the political manipulation hypotheses across ideologically different government cycles, and use government administrative data in an extensive and comprehensive way.

Kálmán (2011) using territorial socio-economic, election data and programme administrative data covering the first EU structural fund cycle in Hungary (2004-2008) finds evidence for political favouritism and also emphasizes that features of the grant-allocation institutions affect the absorption

of EU funds in Hungary. She stresses that the effectiveness of EU funds in promoting economic convergence can be improved by setting up more decentralized allocation mechanism and by improving the institutional settings at the regional and local level. More open, local community-driven and transparent decision-making processes may produce more efficient allocations.

Medve-Bálint (2016) compares the distribution of EU funds in Hungary *versus* Poland between 2007-2013 and concludes that central government control over funding decisions allows for political considerations to play a role – along with his observation that in both countries if the same rules apply to both advanced and backward regions, then the more developed areas are likely to enjoy competitive advantage over the less prosperous ones and receive more EU funds per capita.

Muraközy-Telegdi (2017) strives to quantify the effect of partisan manipulation of EU funds in Hungary by using project application-level data (including both successful and rejected applications). Their administrative dataset covers all EU co-financed development measures for the period 2004-2012 and they link the data on application-level with municipality-specific, socio-economic and election data.

The authors find that:

- No significant partisan bias in the case of total grant value allocated along the political alignment of the settlement of the given winning project.
- The central government allocates, however, larger grant value per capita to municipalities with a mayor of the same political orientation if the project is managed by public entities (see, the applicants are municipalities or their background institutions, public companies in their jurisdiction). Political affiliation matters also significantly when the local development projects are visible, tangible (see in particular public infrastructure and construction projects).
- According to the estimations, the political alignment effects vary between 16-21 percent (more grant value per capita) in the above cases.
- Regressions differentiating project by the allocation procedures show that by controlling for all other explaining factors positive alignment effects are significant for the so-called non-automated grants – that means, for EU grants allocated via not standard or simplified procedures, but by procedures allowing for more discretionary selection by the central managing authorities.
- Municipalities with a higher share of own revenues receive higher value of grant per capita (corresponding with previous Hungarian and international studies).
- Finally, they also conclude that while central governments in Hungary favoured their own districts in the decision-making process, this outcome is partly due to the fact that aligned municipalities file a larger number of applications.

Anecdotal evidence for manipulating the call/tender launches, the progress of public procurements (the most typical mechanism applied in case of non-automated, discretionary allocations) abounds, but we miss both systematic, data-driven analytical papers as well as in-depth qualitative analyses (for example, case studies) on the occurrence and types of such administrative/ procedural biases.

Nonetheless, it should be kept in mind that central government actors may easily help allied municipalities/ project applicants: either 1) by informing them about calls in a discreet, non-transparent way, by launching calls with very short deadlines, by personalising the calls; or 2) by keeping them on fast tracks and administering their project applications more quickly. All these manoeuvres may result in a higher number of project applications from local public stakeholders coming from municipalities with the political colour of the central government or in relatively lower

number of applications from municipalities with a mayor from opposition parties (potentially given also their expectations on lower likelihood of winning).

IV.4. Methodology and caveats

The 2019 Hungarian municipal elections helped a non-negligible number of politicians affiliated with political parties opposed to the ruling coalition (FIDESZ and KDNP party) controlling the national Parliament to positions of local power.

Our main research question for this pilot analysis is to what extent have the municipalities with a mayor politically aligned with the incumbent parties of the central government were more likely to receive EU funds and/or to receive comparatively larger sums of EU funds than those with a mayor supported by opposition parties at the local level.

This key question can ultimately be broken down to more detailed sub-hypotheses, for example:

- *Policy area/ project activity*: differentiating TOP measures and the subsidised development projects according to the specific policy area, the project activity (see, urban transport development versus employment-boosting retraining) and the scope of the granted project (see, small firm subsidies versus construction projects),
- *Identity of the applicant*: scrutinizing EU grants distributed to different beneficiaries: public entities, such as municipalities, public institutions and companies owned and managed by municipalities, or private organisations, for example civil society or religious organisations active,
- *Allocation procedure*: telling apart different allocation and decision-making procedures (see, standard and simplified selection procedures which are often automated versus so-called priority procedures which allow for more discretion on the part of the Managing Authority),
- *Size and type of settlements*: EU funds and development subsidies originally depend on the size and more refined socio-economic characteristics of the applicant municipalities. We use local population (number of inhabitants) as a proxy here, but further, more refined indicators should be linked in future analysis (preferably unemployment rate, local financial indicators and performance, local indicators of social welfare).

All we present below is rough pooled cross-tabulated headline results from our preliminary research effort, concentrating on aggregates and just one of the plausible dependent variables - such as, the partisan affiliation of the mayor who won the 2019 local election.

This method does not yield a fine-grained analysis yet of what kind of distributive mechanisms are skewed towards the ruling (FIDESZ-KDNP) party-affiliated settlements post the 2019 local elections. That would require a more comprehensive review of different types of EU funds (including all OP measures aimed at local projects), of more characteristics of municipalities and controlling for all fiscal measures of central government largesse, which, in turn, opens a number of methodological and statistical concerns.

We included cross-tables of slightly more disaggregated (and more varied) preliminary results that can be considered a first step in that direction in Annex III, but to interpret the competing government goals when programming and deciding the allocation of EU funds will require access to substantially more additional interviews and desk research.

More importantly, based on correlations emerging from simple cross-tabulation we can obtain, at most, a *prima facie* case for our hypothesis. Statistically corroborating a causal relationship between

the party affiliation of the local government and the EU funds would require substantially much more data points and access to administrative data on rejected project applications. We would have to discard the possible alternative explanations for the correlation between party in local power and funds received we may find.

The two most important reasons for such a correlation are: 1) causation can go the other way (settlements better at attracting EU funds were more likely to elect an incumbent-affiliated mayor in 2019), or 2) hidden variables could cause the correlation (for example, towns with certain – perhaps geographical, demographic, social or economic – characteristics are more likely to both gain more EU funds and also to elect a government-affiliated mayor).

The statistical methods usually applied to test those alternative explanations would require us to:

i. Include data from earlier periods,
ii. Include a host of additional control variables (especially the geographical, demographic, socio-economic characteristics of the localities examined), and
iii. Use more advanced statistical methods (specific versions of regression analysis that also allow for the special distributions involved.

Therefore, what we present here should be considered strictly preliminary and illustrative results.

IV.5. Description of data and sample

Testing the various hypotheses on political favouritism and political alignment effects requires basically three types of data:

- Electoral data
- Settlement- or municipality-specific data, and
- Programme administrative data: preferably, application-level rather than data on applicant projects aggregated at settlement/municipality-level.

Electoral data

Political data and results from the local elections are accessible at the homepage of the National Election Office (*Nemzeti Választási Iroda*). We downloaded the results of the 2019 local elections from this webpage in a machine-readable (.xls) format.[21] We only used the results from the most recent local elections to indicate the mayor's political party and the majority in the local council. While data on previous local elections are also available, it should be noted that they are published in a different format and structure and there is no easy way to merge those datasets with the most recent one. The fact that we worked here only with the recent election results limits our possibility to track the changes in the grants in case there was a change in the political leadership.

Based on the data we categorized the municipalities into three political categories:

- '*FIDESZ-KDNP*',
- '*Opposition*' – that means, all the parties from the current opposition: *DK, Jobbik, LMP, MMM, Momentum, MSZP, PM* and the *MKKP* (which is not part of the united opposition but openly prefers them to FIDESZ)
- '*Other*' - all the other nominating organizations and independent mayors are categorized as.

The key variable in our analysis is the party affiliation of the mayor since it is available in the election database. Usually, mayors from small municipalities have no party affiliation. In 2019 out of the 3,161 Hungarian municipalities, only 638 had formally party-affiliated mayors. Non-partisan mayors abound

[21] https://www.valasztas.hu/helyi-onkormanyzati-valasztasok-2019

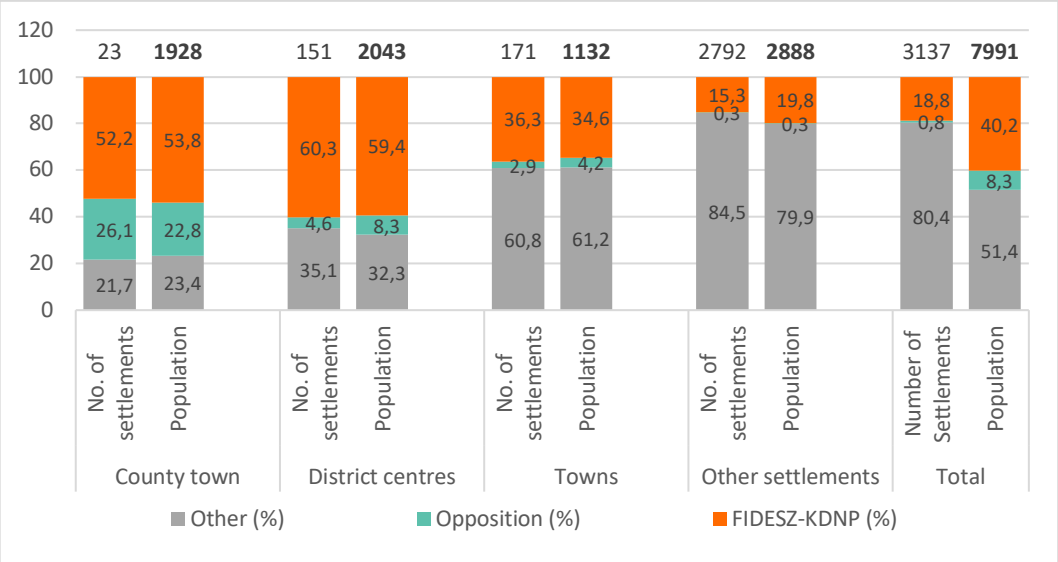
not just in small settlements (84%), but also in cities (61%), and they emerge also in district centres (35%) and in county centres (22%).

It should be noted though that some mayors may be nominally and formally registered as independent but still strongly aligned to and locally supported by a party. Further data cleaning methods can be used to identify the 'hidden' affiliation of these mayors. First, it can be checked whether the given mayor was once associated with a party and in this case one keeps this party affiliation for the time period analysed even if the mayor was independent in last election cycle. Second, internet search can be conducted for each independent mayor of certain settlement types (for example, cities, and larger regional centres). Content/media-analysis may help to identify mayors with some sort of party affiliation (see, typically party politicians endorsing him or her), and their political identity recoded accordingly. Unfortunately, this is a time-consuming process which we could not afford here and now, but applicable in future analysis.

Data on settlements

Basic data on Hungarian settlements can be downloaded from the webpage of the Hungarian Statistical Office.[22] The data contain the administrative status, population size and type of each settlement that could be used to create a variable that differentiate them. Thus, we created four settlement types: county town (*megyei jogú város/megyeszékhely*), district centre (*járási központ*), cities (all other towns, which are neither county towns, nor district centres), and other settlement (which primarily comprise of the smaller settlements). This differentiation is used here as a simplified proxy to synthetise the size of local population and the administrative functions of the given settlement. County towns are distinguished since their socio-economic characteristics are usually better off, the government tasks and competences delegated to them are usually more extensive, and the TOP targets them separately with specific measures (see, all the TOP measures under programme priority 6). District centres play a crucial role in providing access to core public services (e.g., location of public employment offices, early education and care services, such as nurseries, kindergartens, basic public health institutions), they are also the administrative centres of 168 government administrative districts in Hungary. Cities are defined here as settlements with a population over 10 000 inhabitants.

Figure 2. Composition of Hungarian settlements by political affiliation of the mayor and by settlement type



Note: Number of settlements included in the analysis is 3137 – excluding Budapest districts.

[22] https://www.ksh.hu/apps/hntr.egyeb?p_lang=HU&p_sablon=LETOLTES

Apparently, the number of municipalities with mayors aligned with opposition parties is low (25) and their share is considerable only among country towns and district centres (as opposed to government-aligned municipalities, n=591). In terms of population their share is also below 10% across all settlement types.

In this pilot, we excluded Budapest and its districts (24) as the intervention logic of the EU funds work differently there. Additionally, in the pilot sample of supported projects we had only 3 projects coming from Budapest (one from the municipality of Budapest and two from Pest county).

In the future, richer and more comprehensive municipality-specific data can be included by linking the election data with settlement-year level indicators from the so-called T-Star Database managed and hosted by the Hungarian Statistical Office.[23] The T-Star Database comprises a rich set of socio-economic data on Hungarian municipalities. Access and use of this database can allow us to construct municipality-level indicators going beyond population size (for example, population density, the registered unemployment rate[24], the share of operational expenditures in total expenditures of the local administrations, the share of municipalities' own revenues in total revenues, level of capital expenses, demographic data, etc.). Unfortunately, access to the T-Star database is also time-consuming and brings some administrative time and costs that went beyond the project limits now. So, we used the settlement-level indicators publicly available on the webpage of the National Statistical Office.

Programme administrative data on EU funds

The coordination unit at the Prime Minister's Office hosts the EU funds monitoring database which consists of application-level data. While application-level data is also available publicly at the central portal on EU fund operations (www.palyazat.gov.hu) – these data is timely (updated weekly), but not comprehensive (does not cover rejected applications) and not user-friendly (does not provide access and exporting-options in machine-readable format[25]).

The basic unit of observation in the programme monitoring dataset is an application. In our case the successful applications are structured along 33 TOP measures still in operation in the period 2019-2021. The applications cover a vast variety of activities, examples including establishment of industry parks, incubator houses, launching local employment-boosting public-private cooperation, developing environment-friendly tourism, building nurseries, expanding locally available public health services, promoting local community-led development projects. For the full list of TOP measures, see Annex II.

The following variables are available for each application: the name, code of the TOP sub-measure and the type of the allocation procedure associated with the sub-measure, the municipality of execution, the type of the applicant (company, public entity, non-profit private organization, natural person), the amount of money applied for, the date of decision-making, the funds granted/contracted/transferred, and the dates of these administrative steps. In order to link these programme administrative/ monitoring data with other datasets an extra data scrapping and cleaning exercise is required that again could not be covered by our pilot project.

Nonetheless, during the mapping of the relevant Hungarian data we discovered that the government job in collecting application-level data in a comprehensive, easily downloadable, and machine-

[23] See, https://statinfo.ksh.hu/Statinfo/haDetails.jsp

[24] Defined as the number of registered unemployed relative to the population aged 18-59.

[25] While download of information on supported applications in a .csv-format dataset is integrated in the portal for users after registration, we received constant failure messages for downloads in the period January – March 2022. Our inquiry sent to portal administrators remained unanswered. Application-level data is searchable per TOP measures, but it is tabulated in a non-machine-readable format. See, clicking Applicant search (*'Projektkereső'*) menu point: https://www.palyazat.gov.hu/tamogatott_projektkereso?forras=1420&op_type=op_nev&op_nev=4800&eupik_nev=21900

readable data format has been done by an anti-corruption think tank. The Corruption Research Centre Budapest (CRCB) collected and organized the project application-level data on the use of EU funds and published it on its website.[26] It is updated on a yearly basis, so we could use their EU funds dataset covering the time period October 2019 through June 2021.

IV.6. Descriptive statistics on allocation of EU funds in the TOP

Merging the data presented above allows for a preliminary analysis of the EU funds by settlement type. After excluding Budapest and its districts (cf. above), we also excluded the (small) "Other settlements" as there are only a negligible number of settlements (7 out of 2792) led by elected opposition politicians in Hungary.

Furthermore, we only included the EU funded projects awarded after the 13th of October 2019 as that was the date of the local elections, and thus the date in several settlements an opposition mayor was elected. This left us with a sample of 610 successful applications of the 1139 in the given categories and timeperiod. Unfortunately, this is very small sample with a critically low number of data points for a statistically robust analysis. Leaving more time for programme implementation (TOP measures will run through December 2022) and also more opportunity to municipalities in opposition leadership to elaborate their own project applications (following some restructuring and set up of their own local administration) could produce a larger sample and more data point in the future. Inclusion of rejected applicants and of information of their project proposals would be also useful in future investigations. This should however be requested officially from the Prime Minister's Office and in our experience gaining access to such dataset takes usually more than 9 months.

Nonetheless, out of the 610 successful applications 189 went to (more populous) county towns, 285 to district centres and 136 to cities (settlement types in which we find opposition-aligned mayors). Within these sub-groups of settlement types only 54 grants have been awarded to towns with mayor from opposition parties, and a full 23 successful projects were launched in county towns. Notably, this unbalanced nature of our sample mostly reflects the political landscape of the Hungarian settlements. In addition, further data and qualitative analysis would be necessary to clarify whether opposition-aligned municipalities apply less likely than their pro-government peers and if yes, exactly why.

The recipients (opposition- or ruling party-affiliated or independent governed, no matter) seemed to all fully use up the available amounts under the rules of the individual sub-measures (support intensity is 100 percent for all applications).

We also disaggregated grants meant to further different development goals and grants allocated by discretionary allocation procedures, but we obtained mixed results for these sub-samples whose interpretation requires further analysis of the procedures, rules, and the motivations of the actors. We also checked the relevance whether the identity of the applicants makes a difference in EU grants per capita to the given projects, but the number of not-public applicants is extremely low (3%), so any statistics seem not to be representative. For more details on the breakdown of successful project applications and allocations, see descriptive cross-tables in Annex III.

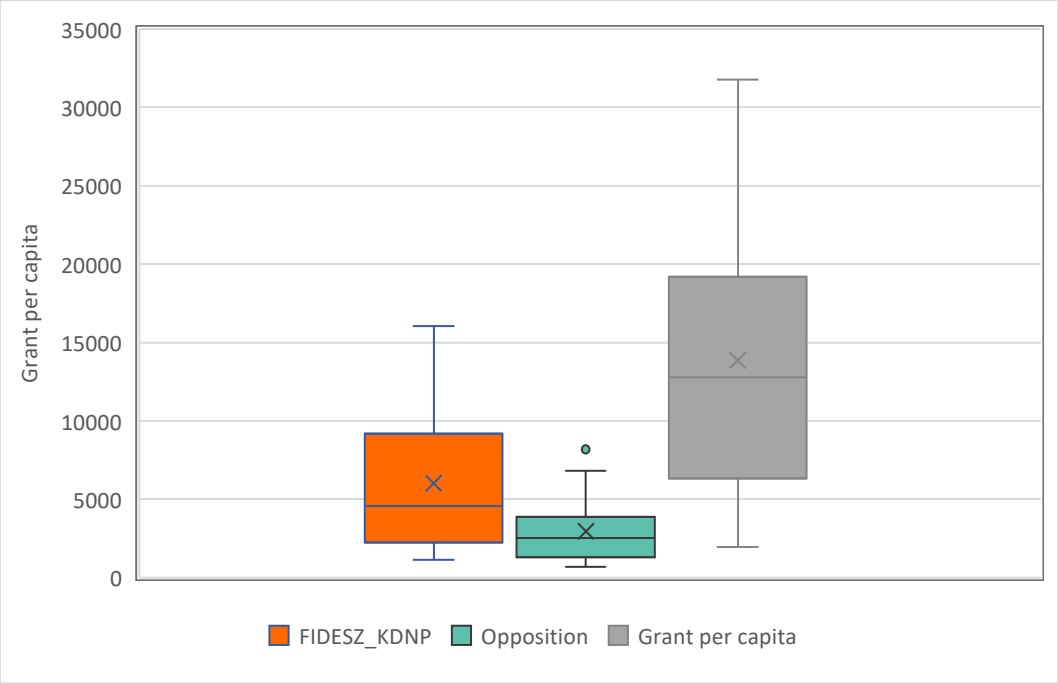
In the analysis we created a variable for total (in Hungarian forints) *grant value per capita* to exclude the bias coming from differences in population size across settlements. Our main result can be seen in Figure 3 below. The median EU-grant per capita to towns governed by a mayor representing the parties in central government was HUF 4419, much more than what towns governed by opposition mayors received (HUF 2521). Towns with independent mayors received the highest median amount per capita

[26] https://www.crcb.eu/?p=2863

(HUF 12771). Variance[27], however, was considerable: HUF 24709 for FIDESZ-KDNP governed towns, HUF 12984 for opposition governed towns, and a whopping HUF 40419 for towns with independent mayors.

These results seem to strengthen our main hypothesis. Even more so, if we posit that the independent mayors are usually *de facto* politically aligned with government parties (apparently subject to double check). As explained above, however, we would be wary of interpreting them as a causal link found between the political colour of the mayor and the amount of EU funds received. Both because of the relatively very small sub-sample size, of the high variance and because of the possible other untested explanations for such a correlation (see, better controlling for the socio-economic characteristics of these settlements other than the population size and administrative status). Linking richer and more in-depth, municipality-specific data is necessary to control for other explaining factors.

Figure 3. Grant per capita by the mayor's political party (1st and 4th quartiles excluded)



IV.7. Considerations for further research

As we mentioned in the section on methodology above, our result, while in line with theory, does not establish causality yet. To show with the level of certainty that quantitative social science can muster that politically government-aligned Hungarian local governments received more in EU-grants (distributed at the national level) than opposition-led ones because of their political affiliation would require a serious research effort that goes well beyond the confines of this report.

Depending on what hypotheses we would try to test, such a more ambitious research project, in our mind, would include:

i. A series of research interviews with mayors and local civil servants as well (if available to be interviewed) with government and EC affiliated civil servants to better understand that allocation mechanisms of EU funds.

[27] High variance of an indicator shows clearly that the squared difference between each data point and the mean value of the given indicator is considerable, large. In our case, that means, that the EU grant per capita values vary significantly both across settlement types, but also within the group of one specific settlement type.

ii. The extension of our *ad hoc* database with earlier and additional data (most importantly, data about applicants submitted but rejected; and data collected for longer implementation period, at earliest going through the end of 2022), the results of the 2022 general election, as well as more detailed information about the special socio-economic and financial characteristics of municipalities in question (see, requesting access to the T-Star database by the National Statistical Office).

iii. The selection and application of a more advanced, adequate regression-based statistical methodology to analyse our data base which could test causality instead of producing only descriptive statistics.

iv. Quantifying plausible alternative versions of political variables – such as testing our hypotheses not just based on the political affiliation of the major, but also qualifying municipalities as government-affiliated or not based on the composition of the local assembly, on the track record of previous local elections (see, winning majors' political colour) to increase the robustness of our findings.

In turn, the results of such a (realistically 12-18 month long) effort should be publishable in a peer-reviewed scholarly journal.

What would be the additional hypotheses that could be so tested?

- We could try to test *causality:* the effects of election results on the chances to win more EU funds from the central government (see, having data on rejected applicants as well).
- It would be even more convincing if we could simultaneously test for that hypothesis and the reverse: higher amount of EU funds (received also in the earlier periods) make it more likely for the local incumbent to stay in power (see, including programme administrative and election data from the earlier time periods, going back at least to the start of the closing 2014-2020 programme period).
- We could try to also test the alternative hypothesis that it is the intensity of local political competition that causes the central government to allocate more EU-grants to local governments (making the vote differences in mayoral candidates).
- We could look at the above mechanisms with respect to the party affiliation of not the mayor but the members of the local assembly.
- Finally, we could address a much broader set of intragovernmental transfers than just the EU funds to be distributed centrally and look at all the centrally redistributed government transfers (linking data from the municipality budgets owned and hosted by the National State Treasury – in our expert experience, an administratively challenging and very time-consuming public data request process).

Needless to say, to convincingly test for these hypotheses we need more elaborate statistical methods and additional data. In Table 4 below have tried to present testing what hypotheses would require what additional research effort.

Table 4. Further research efforts and their resource needs

Hypotheses tested	Data needed in addition to data already used	Challenges in accessing the data	Resources needed
Mayor's political affiliation affects EU-grants won	EU-grants from 2014, T-Start (municipality-level) database	None	Medium
Mayor's political affiliation or the intensity of local political	See, above	Conditional on access to non-	Medium-high

competition affects EU-grants won	Plus, data on EU-grant applications rejected and local elections results for 2014	public EU-grant database	
Those above + party affiliation of local MP affects EU-grants won, also controlling for reverse causation	Those above Plus, 2014, 2018, 2022 general election results	As above	High (also imputing municipality-level data to constituencies)
Those above, plus effects on other grants from the central budget	Those above, Plus, data from the national treasury (MÁK)	As above + conditional on access to MÁK data	Very high

V. Conclusions

We use normative theories as benchmarks and, as checkpoint for mapping as many types of opportunistic decisions and behaviour by political patrons as possible. We suggest distinguishing the various policy tools key decision makers at the central level may apply while influencing policy outcomes. By combining these two dimensions we created a typology of political favouritism that is benchmarked against normative considerations (what should be the social/ policy outcome when political motivations would be absent and social welfare maximisation would drive the key decision makers) and distinguished from other types of favouritism which are not purely or strictly induced by partisan or political vote-maximisation considerations.

The insights that seem to be the most useful for the next step of our work, concentrating on Hungary, are as follows:

1. Empirical evidence seems to abound for the prevalence of political favouritism. While the clear, singular definition of the term is lacking, there is a consensus across the literature that as opposed to the social welfare-maximising decision makers, central government actors may act on various policies and spend public budget in a way to gain political benefits for their own or for their party's sake.

2. Most empirical studies focus on a single country and a single policy outcome (see, public good or service), and primarily on democratic regimes. Many authors argue that the focus on democracies is due to the absence of reliable, systematic data on government policies and decisions in nondemocratic regimes. Methodological challenges explain the dominant focus on single country – for example, government spending data is often difficult to align at cross-country level, definition and scope of public service do differ even within the European Union.

3. Nonetheless, empirical evidence on the tactical use of fiscal transfers is abundant (see, conditional or discretionary grants, but also in the case of formula-based transfers). We identify two reasons for this dominance: first, there are severe methodological challenges in measuring and quantifying the other types of favouritism (see use of regulatory and

institutional tools). Second, our literature mapping was extensive, but not exhaustive. So, it can be further extended to specific country/case studies (with the caution to external validity problems in this case).

4. As also suggested by some theoretical models, the goals of the political decision makers can dynamically change in time and vary across localities: targeting core voters can be tactically combined with allocating intra-government transfers to municipalities shifting colours (swing voter constituencies), at the same time. We find evidence for all these motivations across the EU Member States and from countries, structurally similar to Hungary (e.g., Argentina, Portugal).

5. Hard to find systematic geographic/country or other structural pattern for the emergence of the various types of political favouritism. Countries with more established democratic regime or with more pluralistic political culture also demonstrate cases of political favouritism. For example, empirical evidence from the Czech Republic suggests tactical break up of public procurement transactions and thereby manipulation of the expected contract values to avoid more competitive procedures (see, auctions) prevails. Also, in the case of UK public contracts with politically aligned companies (cronies) are observable (10%), but less than that in the Hungarian case (ca. 50%).

6. So, while political favouritism seems to be a global phenomenon, the degree/extent of the tactical manipulation due to partisan influence appears to be smaller and there is lower risk or opportunity for the incumbent political elite to use more indirect tools to exert their influence in countries with more robust institutional controls and more effective public accountability mechanisms. Notably, this is also the main conclusion of cross-country studies assessing risks of corruption in general (usually defined more broadly than political favouritism here).

7. While in theory different exogenous limitations could curb political favouritism, the insight that emerges from the literature is that the effectiveness of constitutional and institutional controls and political pluralism play highly significant role – the weaker they are, the more room is there for combining the various policy tools, amplify the extent of partisan influence throughout the whole policy cycle (formulation, implementation), and to be “innovative” in using all the various policy tools at hand to restrict the financial and policy leverage of the municipalities to the minimum.

8. Consequently, we suggest taking this more comprehensive approach and typology of political favouritism as a checklist for the analysis of the Hungarian developments in the period 2018-2021. For the sake of external validity, however, and that of relevance, we narrow down the focus of the national assessment on the use of EU funds in Hungary. External validity is important to check whether any findings on the Hungarian practice is consistent with empirical evidence from abroad, from benchmark countries (see, new EU Member States, or older EU Members States with similar structural-institutional characteristics, for example, Portugal). The importance of EU funds in public investment in Hungary is crucial due to its dominance (55,4% of all capital investments financed by public funds) and its significance as a policy tool.

9. Due to the project limits in time and budget, however, our focus on political biases shown in favour of municipalities aligned with the central government, the Territorial and Settlement Development Operational Programme (Terület és település-fejlesztési Operatív Program, TOP) and the corresponding allocations realised within this programme in the period October 2019 and June 2021 are taken pilot examples to check for any potential indicator of political favouritism. This choice is justified by the fact that this programme targets primarily local government entities (municipalities as well as public companies and institutions owned and managed by municipalities), and by absorption data which reflects a relatively late take up of its allocations by local stakeholders.

Based on our short analysis of the Hungarian context on the financial conditions on public finances at the local level and on our descriptive analysis of the TOP measures, we conclude, that:

10. The actual size of the geographically targeted EU transfers, the effective fiscal constraints experienced by local governments in the period 2019-2021 due to the Covid-19 crisis measures and the constantly deteriorating (comparatively) low quality of public institutions in Hungary can make the EU funds especially subject to political favouritism and consequently, misallocation.

11. We find evidence for the political alignment effects in the use and allocation of EU funds in Hungary for the pre-2019 period. The empirical studies focus test the political manipulation hypotheses across ideologically different government cycles, and by using government administrative data in an extensive and comprehensive way show significant signs of biased EU fund allocations in favour of the incumbent parties (pro-government political favouritism) across Hungarian political cycles.

12. Empirical evidence for manipulating the public call/tender launches, the progress of public procurements (the most typical mechanism applied in case of non-automated, discretionary allocations) abounds, but we miss both systematic, data-driven analytical papers as well as in-depth qualitative analyses (for example, case studies) on the occurrence and types of such administrative and procedural biases for the narrower set of public procurements launched exclusively for the allocation of EU funds.

13. Further qualitative methods-based analysis would be helpful to collect evidence on the use of policy tools, other than fiscal transfers, in the development policy, public investment area linked to the use of EU funds. It is the task of future studies to run an in-depth, qualitative analysis on the occurrence of important informational and procedural biases within the field of EU cohesion policy framework (such as, demonstrating cases when pro-government municipal decision-makers or public project applicants are informed about upcoming calls/tenders in a discreet, non-transparent way, systematically analysing contents of personalised calls; or checking administrative data on fast tracks and speeded up project applications in case of politically aligned applicants).

Finally, to show with the level of certainty that quantitative social science can muster that politically government-aligned Hungarian local governments received more in EU-grants (distributed at the national level) in the period following October 2019 than opposition-led ones because of their political

affiliation would require a comprehensive research effort that proved to be beyond the confines of our project.

Our descriptive analysis of TOP data seems to strengthen the positive effect of pro-government political alignment in Hungary for the period 2019-2021. The median EU-grant per capita to towns governed by a mayor representing the parties in central government was HUF 4419, much more than what towns governed by opposition mayors received (HUF 2521). Towns with independent mayors received the highest median amount per capita (HUF 12771). These results have to be interpreted with severe caveats. First, it would be wary of interpreting them as a causal link found between the political colour of the mayor and the amount of EU funds received. Both because of the relatively very small sub-sample size, of the high variance and because of the possible other untested explanations for such a correlation (see, better controlling for the socio-economic characteristics of these settlements other than the population size and administrative status). Linking richer and more in-depth, municipality-specific data is necessary to control for other explaining factors and checking the chance of applications would be necessary to show the politically influenced selection bias (as opposed to the application bias) in a significant and robust way. Consequently, we conclude our paper with listing more refined and alternative hypothesises along with the necessary requirements on having access to more comprehensive and detailed government datasets - as a plan for future research.

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ANNEX I. OVERVIEW OF EMPIRICAL EVIDENCE ON TACTICAL ALLOCATION OF PUBLIC TRANSFERS

Table 5. Countries with evidence on tactical allocation of public transfers: variables, degree, policy area, data source and method

Country	Reference	Type of transfer	Political alignment effect	Time period	Policy area	Motivations
European countries						
ALB	Case 2001	Block grants	-A one standard deviation increase in the percent of the commune's district voting with the Democrats is expected to increase social assistance funding by roughly 18%, holding all else equal. -Distance from being a swing commune has a negative effect on the size of grant received (-3.72 on total grants in 1000s)	1996 funds awarded to communes: 1992 votes for local gov. and 1994 referendum vote	Block grant to support the most vulnerable (social assistance)	Swing voter
GR	Rodríguez-Pose et a l. 2016b	Total public investment expenditure	Both ND and PASOK when in office channelled public investment to those regions (1) which delivered the greatest number of votes and MPs (2) where the distance between them and the main opposition party was greatest	1975-2009	Public investment - manufacturing, agriculture, education, and research (EU structural assistance included)	Core-voter

SE	Dahlberg-Johansson 2002	Temporary ecological grants Conditional grant (non-EU)	The smaller the difference (-1%) in the votes given to parties/party blocs in the last election, the larger the probability is to win grants (+3,4%)	1998 (pre-election, campaign period)	Ecological sustainable development program (incl., municipal employment)	Swing voter
ES	Castells- Solé-Ollé 2005	Conditional grants	The government invests more in the regions where electoral productivity is higher. Both vote margin and swing voters variables have a significant effect. Maximum impact during election years (0.27, 0.22)	1987-1996	Infrastructure investments	Swing voter
ES	Solé-Ollé 2013	Conditional grants	-a 10% increase in the incumbents' Vote margin reduces investment effort by 0.34 percentage points -a one standard deviation increase in the Marginal seat price reduces the investment effort by 1.56 percentage points -Not being aligned with the central government or not being pivotal in the formation of the central executive reduces the investment effort by 0.2% and 0.5%.	1964-2004 (both democratic and dictatorship periods)	Infrastructure investments	Swing voter

PT	Veiga-Pinho, 2007	Total municipal grants (both formula-based and not formula-based)	The estimated coefficient associated with the variable DIF FERENCE_%VOTES is negative and highly statistically significant (~-0,14).	1979-2002	Per capita municipality grants	Core & & swing-voter
Sweden	Johansson, 2003	Intergovernmental grants	Municipalities with many swing-voters (higher density at the cut point) are given larger grants than other municipalities during 1992-1995 (they received ~350 SEK more per cap grants)	1981-1995	Total grants (equalizing grants, grants toward loc. gov. activities, grants toward investments)	Swing-voter
DE	Kauder et al. 2016	Discretionary project grants	Project grants per capita increased by about 14.9 percent when the vote share of the incumbent party increased by one standard deviation.	2008-2011	Common welfare, rural renewal, infrastructure investments	Core-voter
BU-LT	Bloom-Petrova 2013	EU matching funds (grants)	LT: 10% increase in the support for the prime minister's party (the TP) resulted in between 40 and 53 additional LVL per capita (ca. $72–$96) of EU aid BU: A 10% increase in support for the BSP provided an additional e6.4 ($8.3) of regional aid per capita	LT: 2004-2007 BU: 2005-2008	ERDF projects	Core-voter
HU	Kálmán, 2011	EU matching funds (grants)	-if the political colour of the member of parliament from a certain locality is the same as the incumbent central government, the locality's chances of getting funds from EU SF grants increase by +2-8 per cent	2004-2008		Core-voter

PL	Banaszewska-Bischoff, 2017	EU matching funds (grants)	-EU funds/cap in a municipality that is aligned with the regional government are between 14 and 34 % higher than in a non-aligned municipality (core-voter) - an increase in vote-differential by 10 percentage points reduces EU funds/cap by 6% (swing-voter)	2007-2013 (local municipal election in 2010 and national elections in 2007 and 2011)	-all EU funds spent by municipalities proxied by municipal expenditures	Core-voter Swing-voter
PT	Veiga (2012)	EU matching funds (grants)	-The percentage of votes within the municipality that favoured parties in central government in the last election is both positive and statistically significant (~0,30). -The coefficient of Abs dif votes previous election (swing-voter hypothesis): negative, marginally significant, that means municipalities received more grants when the party in office won by a narrower margin	1992-2006	Panel data on municipality accounts, transfers	Core voter Swing-voter
DE	Dellmuth-Stoffel 2012	EU matching funds (grants)	- Holding all variables constant, a 1 percentage point increase in vote share in a district leads to an increase of EU structural funding in that district by about 8 percent	-1999 and aggregated data for 2000-2006	EU regional policy (financing local projects)	Core-voter
12 EU MS	Bouvet-Dall'erba 2010	EU structural funds	When regional governments are politically aligned with national governments, the regions get an additional €306.82 per capita in objective 1 funds.	1989-1999	European regional policy	Core-voter

Non-European countries						
Chile	Lara-Toro 2019	Discretionary grants	Significant funding gap Funding of opposition municipalities decreased from base year (only 37.7% of their 2013 funding), the aligned municipalities' funds increased (by 42.5%)	2012-2016	Urban development, public infra (sidewalks, roads, sewers, etc.) (*Neighbourhood Improvement Program,*	Core voter
Turkey	Luca-Rodríguez-Pose 2015	Per capita fixed public investments	Their results show clear and statistically significant evidence of a preferential allocation of public investment to provinces where votes for the AKP are higher. (Coefficient of governing party: 0.0216, Coefficient of opposition party: -0.0374)	2005-2012	Investments in agriculture, manufacturing, transport, housing, education, health and other public services	Core voter
Indonesia	Gonschorek et al. 2018	Discretionary central-government grants	Districts with less than 30% support for the president received 0.26 log points more than core-supporter districts in the off-election years and 0.83 log points more in election years.	2005-2013 (presidential election in 2009 and 2014)	infrastructure investments	Swing voter
Albania	Merkaj et al, 2020	intergovernmental unconditional transfers (testing the use of formulas)	-difference in votes (proxy for swing-voter model) not significant (2.98) -on average, more transfers are allocated to supporter LGUs: votes for aligned proxy for core-voter model significant (6.66)	2004-2011 (2003 and 2007 local elections, 2005 and 2009 parliamentary elections)	-unconditional transfer per capita allocated to local self-gov units (general grant, equalization grant)	Core-voter

Brasil	Litschig 2012	Rules-based revenue sharing mechanism	Swing communities with a higher probability (16pp) to receive transfers relative to opposition dominated communities	1980-1991	Fiscal equalisation transfer	Core-voter
Brazil	Finan-Mazzocco, 2020	Discretionary transfer	-deputies misallocate 26.8% of their public funds relative to a social planner's allocation (Electoral incentives explain almost 30% of these distortions and corruption accounts for 13.5%, the remaining stems from incomplete information.)	1996-2013	-public funds allocated by federal legislators (these budgetary amendments amount to 0.2% of total discretionary spending)	Core-voter
Brazil	Brollo-Nannicini, 2012	Discretionary transfers	In pre-election years, municipalities in which the mayor is affiliated with the coalition (and especially with the political party) of the Brazilian president receive approximately one-third larger discretionary transfers for infrastructures.	1999-2010	Public infrastructure projects (highly visible)	Core-voter
US	Ansolabeher-Snyder 2006	Conditional transfer	Areas where the majority party within states have higher levels of electoral support received, on average, larger shares of state transfers. A one-standard-deviation change in the Relative Representation Index variable produces a 10% change in per capita transfers, or about $60 in 1997.	1957-1997	Programs including education, highways and roads, hospitals and public health, housing, and welfare	Core-voter

ANNEX II OVERVIEW OF MEASURES OF THE TERRITORIAL AND SETTLEMENT DEVELOMENT PROGRAMME (TOP) IN HUNGARY

Table 6. Description of TOP measures

Measure	Code	Objective	Supported tools	Allocation procedure*	Amount of total funds (Million HUF)	Minimum grant (Million HUF)	Maximum grant (Million HUF)	Submission deadline
Development of industrial parks and industrial areas	(TOP-1.1.1-15) TOP-1.1.1-16	Support the development of business infrastructure and services for local economic development	-industrial and tech parks, logistics, and innovation centres -create and expand industrial areas, greenfield and brownfield investments	ST	(2 028) 41 896	(50) 40	(3 000) 1 289	23/05/2016 10/02/2017
Development of incubator houses	TOP-1.1.2-16	Support the expansion of enterprises by building the infrastructural background of municipality-owned incubator houses.	-construction and development of real estate for industrial development -incubation and expansion of related infrastructure	ST		25	1 278	31/05/2017
Development of the local economy	TOP-1.1.3-15 (TOP-1.1.3-16)	Incentivize investments.	-support for local producers to gain access to the market -support for local government institutions (buildings, kitchen infrastructure) -support for improving agriculture logistics to help local products access the market (buildings, other infrastructure)	ST	900 (2 551)	25	2 000 (724)	05/23/2016 (02/10/2017)
Socially and environmentally sustainable tourism development	TOP-1.2.1-15 (TOP-1.2.1-16)	Support regional-level tourism product packages and small-scale thematic tourism development.	-touristic development of cultural heritage sites -development of ecotourism -development related to active tourism	ST	3 134 (2 440)	50	1 500 (1 000)	04/27/2016 (09/29/2017)
Improving employment and quality of life by developing family-friendly institutions and public service	TOP-1.4.1-15 (TOP-1.4.1-16)	Improve access to basic childcare (nurseries) and pre-school care and the quality of services to improve parents' employment prospects and to help families, especially in the most disadvantaged areas.		ST	1 460 (2 017)	1	600	09/21/2016 (02/10/2017)
Expansion and creation of nurseries	TOP-1.4.1-19	Improve access to nursery care (nursery, mini nursery, family nursery) and the quality of the services provided by nursery	-expansion of nurseries -building new nurseries	ST		5	700	28/06/2019

		care, especially in the most disadvantaged areas.						
Strategic and project level preparation for the 2021-27 planning period	TOP-1.5.1-20	Prepare local, integrated territorial strategy documents necessary for the implementation of the territorial operational program for the 2021-27 programming period.		PR	5 000			Ongoing since 2020
Rehabilitation of brownfield sites	TOP-2.1.1-15	Create an attractive, yet environmentally sustainable urban environment.	-climate-conscious modernization of municipally owned real estate to increase energy efficiency	ST		50	2 000	08/08/2016
Designing green cities	TOP-2.1.2-15 (TOP-2.1.2-16) (TOP-2.1.2-16-KOI))	Support the development of sustainable infrastructure that improves the general environmental condition of towns.	-development of a green urban infrastructure network -climate-smart modernization of municipality-owned buildings -modernization of a municipal buildings	ST	2 200 (943)	50 (20) (50)	1 998 (1 000) (266)	9/30/2016 (29/09/2017) (30/10/2020)
Development of municipal environmental infrastructure	(TOP-2.1.3-15) TOP-2.1.3-16	Support the development of inland rainwater drainage and management systems.	-drainage infrastructure for the protection of inland areas (drainage, reservoir, etc.)	ST	(350) 45 562	(5) 10	(750) 450	(9/29/2017) 9/30/2016
Development of sustainable urban transport	TOP-3.1.1-15 (TOP-3.1.1-16)	Support urban transport development measures to curb emissions and reach EU emission targets.	-bike-friendly developments -developments aimed at traffic reduction, traffic safety, and accessibility	PR (ST)	1 716 (2 365)	50 (25)	600 (1 440)	07/06/2016 (15/09/2017)
Energy modernization of municipal buildings	TOP-3.2.1-16	Promote more efficient energy usage and management of municipal buildings.		ST	56 352	10	510	29/09/2017
Implementation of renewable energy supply systems	TOP-3.2.2-15	Support complex projects (requiring municipal and inter-municipal coordination) for the	-designing and implementing heating, cooling and electricity systems operating with biomass, geothermal, or solar-based renewable energy	ST	n.a.	15	1 200	30/09/2016

adapted to local conditions		production and local usage of renewable energy.						
Infrastructural development of primary healthcare	TOP-4.1.1-15 (TOP-4.1.1-16)	Development and construction of primary health care facilities.	-renovation (reconstruction, extension, etc.) of primary healthcare premises/buildings	PR	589	10	400 (120)	9/15/2016 (29/05/2020)
Expansion and development of the infrastructure of basic social services	(TOP-4.2.1-15) TOP-4.2.1-16	Improve the accessibility of the services listed in the Social Act and the Child Protection Act.	-development of basic social services and basic child welfare services	ST	16 398	3	(500) 300	(29/04/2016) 29/09/2017
Rehabilitation of degraded urban areas	TOP-4.3.1-15 (TOP-4.3.1-16)	Redress social, physical, and economic problems in deprived neighbourhoods and promote social integration of those living in the area.	-modernization of buildings	ST	(7 774)	50 (70)	600 (383)	07/15/2016 (30/08/2019)
County-level employment agreements, cooperation in the areas of employment and economic development	TOP-5.1.1-15	Facilitate partnerships' (pacts) access to funds to implement their training and employment programs.	-activities related to employment agreements (pacts) -activities related to labour market programs and training	PR	n.a.	300	2 688	17/03/2016
Complex programs at the local level to strengthen social cooperation	TOP-5.2.1-15 (TOP-5.2.1-16)	Social integration at community and individual level of people living in deprived urban areas.	-provision of services in areas related to social cooperation (i.e., social work, health care, non-formal education, crime prevention, etc.)	ST	2 210	5 (20)	410 (80)	07/29/2016 (30/09/2017)
Strengthening local identity and cohesion	TOP-5.3.1-16	Strengthening the sense of responsibility, civil society, and activism.	-elaboration and implementation of related programs	SIM		5	919	02/10/2017
Strengthening county identity	TOP-5.3.2-17	Strengthening the sense of responsibility, civil society, and activism.	-elaboration and implementation of related programs	PR		1	919	31/07/2018
Development of socially and environmentally sustainable tourism	TOP-6.1.4-16	Support regional-level tourism product packages and small-scale thematic tourism developments.	-touristic development of cultural heritage sites -development of ecotourism and active tourism	PR		5	1 500	28/09/2018

Development of transport to boost economic development and labour mobility	TOP-6.1.5-15 (TOP-6.1.5-16)	Renovate and develop low-level roads outside the TEN-T network.	-development and renovation of roads with 4 and 5 digits or outside the TEN-T network -construction of roads and bridges	PR	41 127	50	3 640 (5 250)	9/30/2016 (6/30/2017)
Creation and expansion of nurseries	(TOP-6.2.1-16) TOP-6.2.1-19	Improve access to nursery care (nursery, mini nursery, family nursery) and improve the quality of services.	-increasing the capacity of nurseries, building new ones	ST (PR)	(11 172) 20 942	(1) 300	(1 212) 1 500	(31/08/2017) 4/30/2020
Creating green cities	TOP-6.3.2-15 (TOP-6.3.2-16)	Support the development of sustainable infrastructure that improves the general environmental condition of towns.	-activates to promote green cities (green recreational areas, etc.) -energy efficiency development -building new municipal service buildings	ST	24 526	90 (10)	2 900 (2 488)	10/14/2016 (29/12/2017)
Development of urban environmental infrastructure	TOP-6.3.3-16	Design and expand inland rainwater drainage and management system of county towns.	-drainage infrastructure for the protection of inland areas (drainage, reservoir, etc.)	ST		10	1 050	31/05/2017
Development of sustainable urban transport	TOP-6.4.1-15 (TOP-6.4.1-16)	Create and strengthen the conditions for sustainable transport of county towns	-bicycle-friendly investments -investments aimed at traffic reduction, road safety, and accessibility	PR	1 295	50	3 136 (3 000)	01/09/2016 (30/06/2017)
Energy modernization of municipal buildings	TOP-6.5.1-16 TOP-6.5.1-19	Promote more efficient energy usage management of municipal buildings.		ST	2 393 (10 904)	1 (10)	2 393 (1 500)	6/29/2018 5/20/2020
Implementation of local public renewable energy supply systems controlled by the municipality	TOP-6.5.2-15	Satisfy energy needs of public (municipal) buildings and infrastructure facilities with renewable energy.		ST	5 657			30/06/2016
Development of primary health care facilities' infrastructure	TOP-6.6.1-16		-expansion and development of primary care infrastructure, general practitioner service infrastructure, and homeless shelters	PR		20	163	31/12/2019
Expansion and development of the infrastructure of basic social services	TOP-6.6.2-16	Support the development of the infrastructure of basic social services.	-development of the infrastructure of basic social services (i.e., increase accommodation capacity, renovation, expansion, acquisition of real estate) -acquisition of equipment	PR		3	174	31/05/2017

Rehabilitation of degraded urban areas in county towns	TOP-6.7.1-16	Redress social, physical, and economic problems in deprived neighbourhoods and promote social integration of those living in the area.	-development of residential buildings in deprived areas -acquisition of communal flats for deprived people	PR	50	1 726	29/06/2018
Complex programs at the local level to strengthen social cooperation	TOP-6.9.1-16	Social integration at community and individual level of people living in deprived and at-risk urban areas.	-designing and implementing programs to boost social cooperation in many areas (i.e., social work, health care, non-formal education, crime prevention, etc.)	PR	10	390	28/09/2018
TOP CLLD (Community-led local development) ERDF type local support applications	TOP-7.1.1-16	Renewal of the cultural and community life of cities, design and disseminate community-based measures to boost economic development in cooperation with the local stakeholders.	-activities related to the preparation of the HKFS (Local Community Development Strategy)	ST	100	1 500	24/05/2017

*PR= priority selection procedure; ST=standard selection procedure; SIM=simplified selection procedure

ANNEX III SAMPLE OF TOP APPLICATIONS

Table 7. Number of grants by priority and allocation procedure

settlement type mayor's party	Priority procedure					Standard/simplified procedure				
	TOP1-3	TOP4	TOP5-7	TOP6	Total	TOP1-3	TOP4	TOP5-7	TOP6	Total
county town	27	-	6	104	**137**	2	-	34	16	**52**
Other	5	-	2	18	**25**	-	-	1	-	**1**
Opposition	4	-	1	19	**24**	-	-	20	3	**23**
FIDESZ-KDNP	18	-	3	67	**88**	2	-	13	13	**28**
town (district centre)	4	3	-	-	**7**	116	24	138	-	**278**
Other	-	1	-	-	**1**	28	5	35	-	**68**
Opposition	-	-	-	-	**-**	6	1	6	-	**13**
FIDESZ-KDNP	4	2	-	-	**6**	82	18	97	-	**197**
other town	1	3	-	-	**4**	88	13	31	-	**132**
Other	1	1	-	-	**2**	49	7	13	-	**69**
Opposition	-	-	-	-	**-**	5	1	2	-	**8**
FIDESZ-KDNP	-	2	-	-	**2**	34	5	16	-	**55**
other settlement	6	29	1	-	**36**	661	12	4	-	**677**
Other	5	24	1	-	**30**	504	10	4	-	**518**
Opposition	-	-	-	-	**-**	-	-	-	-	
FIDESZ-KDNP	1	5	-	-	**6**	157	2	-	-	**159**
Total	**38**	**35**	**7**	**104**	**184**	**867**	**49**	**207**	**16**	**1139**

Table 8. Number of priority procedure grants by priority and year

settlement type mayor's party	Priority procedure										
	TOP1-3			TOP4		TOP5-7		TOP6			Total
	2019	2020	2021	2020	2021	2020	2021	2019	2020	2021	
county town	**-**	**7**	**20**	**-**	**-**	**5**	**1**	**4**	**89**	**11**	**137**
Other	-	2	3	-	-	1	1	-	15	3	25
Opposition	-	4	-	-	-	1	-	-	19	-	24
FIDESZ-KDNP	-	1	17	-	-	3	-	4	55	8	88
town (district centre)	**-**	**4**	**-**	**2**	**1**	**-**	**-**	**-**	**-**	**-**	**7**
Other	-	-	-	1	-	-	-	-	-	-	1
Opposition	-	-	-	-	-	-	-	-	-	-	0
FIDESZ-KDNP	-	4	-	1	1	-	-	-	-	-	6
other town	**-**	**1**	**-**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**4**
Other	-	1	-	1	-	-	-	-	-	-	2
Opposition	-	-	-	-	-	-	-	-	-	-	0
FIDESZ-KDNP	-	-	-	2	-	-	-	-	-	-	2
other settlement	1	5	-	28	1	1	-	-	-	-	36
Other	-	5	-	24	-	1	-	-	-	-	30
Opposition	-	-	-	-	-	-	-	-	-	-	0
FIDESZ-KDNP	1	-	-	4	1	-	-	-	-	-	6

Total	**1**	**17**	**20**	**33**	**2**	**6**	**1**	**4**	**89**		**11**	**184**

Table 9. Number of standard procedure grants by priority and year

settlement type mayor's party	Standard procedure											
	TOP 1-2-3			TOP 4			TOP 5-7			TOP 6		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2020	2021	Total
county town	**-**	**2**	**-**	**-**	**-**	**-**	**3**	**21**	**10**	**13**	**3**	**52**
Other	-	-	-	-	-	-	1	-	-	-	-	1
Opposition	-	-	-	-	-	-	-	12	8	3	-	23
FIDESZ-KDNP	-	2	-	-	-	-	2	9	2	10	3	28
town (district centre)	**10**	**93**	**13**	**1**	**13**	**10**	**3**	**75**	**60**	**-**	**-**	**278**
Other	2	24	2	-	3	2	-	12	23	-	-	68
Opposition	1	2	3	-	-	1	-	5	1	-	-	13
FIDESZ-KDNP	7	67	8	1	10	7	3	58	36	-	-	197
other town	**6**	**76**	**6**	**-**	**8**	**5**	**-**	**23**	**8**	**-**	**-**	**132**
Other	5	41	3	-	4	3	-	9	4	-	-	69
Opposition	-	3	2	-	-	1	-	-	2	-	-	8
FIDESZ-KDNP	1	32	1	-	4	1	-	14	2	-	-	55
other settlement	34	592	35	-	10	2	-	4	-	-	-	677
Other	28	448	28	-	8	2	-	4	-	-	-	518
Opposition	-	-	-	-	-	-	-	-	-	-	-	0
FIDESZ-KDNP	6	144	7	-	2	-	-	-	-	-	-	159
Total	**50**	**763**	**54**	**1**	**31**	**17**	**6**	**123**	**78**	**13**	**3**	**1139**

Table 10. Grant per capita by year, settlement type and the mayor's political party

settlement type mayor's party	Grant per capita (thousand HUF)			
	2019	2020	2021	Total
county town	**2,4**	**4,6**	**3,9**	**4,4**
Other	2,0	3,5	4,7	**3,8**
Opposition	-	3,5	1,4	**3,1**
FIDESZ-KDNP	2,4	5,4	4,4	**5,0**
town (district centre)	**36,3**	**16,7**	**8,1**	**15,1**
Other	43,9	25,8	5,8	**18,5**
Opposition	58,8	3,2	19,9	**13,9**
FIDESZ-KDNP	32,9	14,7	8,1	**14,0**
other town	**54,2**	**40,0**	**40,4**	**40,7**
Other	53,3	43,0	48,7	**44,6**
Opposition	-	41,0	16,2	**25,5**
FIDESZ-KDNP	58,7	36,6	50,1	**37,9**
other settlement	**138,3**	**158,5**	**180,9**	**158,7**
Other	136,6	160,1	200,4	**161,1**
Opposition	-	-	-	-
FIDESZ-KDNP	145,0	153,1	108,0	**150,6**
Total	**91,8**	**102,0**	**45,7**	**93,6**

Table 11. Number of grants, average percentage of expected/allocated grant and average number of days between the decision and last payment by year settlement type and the mayor's political party

settlement type mayor's party	Number of grants			Average percentage of expected/allocated grant			Average number of days between the decision and last payment		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
county town	7	137	45	100,0	99,7	100,0	222,5	169,4	67,2
Other	1	18	7	100,0	100,0	100,0	234,0	89,3	54,2
Opposition	-	39	8	-	100,0	100,0	-	183,7	-
FIDESZ-KDNP	6	80	30	100,0	99,5	100,0	220,6	172,5	69,7
town (district centre)	14	187	84	100,0	100,0	100,0	222,0	171,2	98,7
Other	2	40	27	100,0	100,0	100,0	98,5	175,1	88,3
Opposition	1	7	5	100,0	100,0	100,0	251,0	130,7	128,0
FIDESZ-KDNP	11	140	52	100,0	100,0	100,0	241,9	171,5	95,2
other town	6	111	19	100,0	100,0	100,0	232,8	162,8	87,8
Other	5	56	10	100,0	100,0	100,0	258,6	193,8	86,7
Opposition	-	3	5	-	100,0	100,0	-	152,3	77,5
FIDESZ-KDNP	1	52	4	100,0	100,0	100,0	104,0	127,4	112,0
other settlement	35	640	38	100,0	100,0	100,0	172,9	152,0	93,2
Other	28	490	30	100,0	100,0	100,0	180,1	156,2	103,9
Opposition	-	-	-	-	-	-	-	-	-
FIDESZ-KDNP	7	150	8	100,0	100,0	100,0	144,0	138,5	69,8
Total	**62**	**1075**	**186**	**100,0**	**100,0**	**100,0**	**195,4**	**158,0**	**84,7**

Annex IV. Access to and quality of public data on EU fund allocations targeted at municipalities in Hungary

Government transparency, open and digital government reforms have dominated the public agenda in many EU countries for the last decade. One the one hand, international organisations (the European Union, Open Government Partnership, OECD, and the World Bank) are the key drivers for open government data initiatives by defining the concept of open data and by identifying and assessing good national practices of public disclosure.[28] On the other hand, some OECD and EU Member States are leading pioneers in improving the accessibility, the quality and the reuse of public data (e.g., Austria, Ireland, Korea, Poland, Slovenia, and Spain). [29]

It is generally suggested that opening public data may strengthen responsible public governance, boost trust in public institutions, and foster public accountability by reinforcing the obligations of public governments to respect the rule of law and to improve decision-making and administrative processes within the public sector.

1. EU open data policy and open cohesion data

The EU Open Data Directive[30] regulates European open data policies and the reuse of public sector information across the European Union Member States. The key EU policy objectives with this framework regulation are to set minimum criteria for governments to share information and data produced within the public sector for reuse by private and public entities and to reap the full potential of open data reuse. In accordance with the European Digital Strategy[31] and its priority of digitisation of public services, the European Commission also encourages best practices and strives to lead by example in providing also access to data on the progress of the EU cohesion and development policy funds (hereinafter, referred to as EU funds).

For example, at the EU level a comprehensive data portal (https://cohesiondata.ec.europa.eu) was set up that provides access to EU co-financed fund allocations at two levels of aggregation (country- and EU region-level[32]) and breaks down data by the different funding sources, policy objectives, and implementation phases. In March 2022 the European Commission has launched a new public platform called *Kohesio* (https://kohesio.ec.europa.eu) which shares project- and beneficiary-level data on EU allocations distributed by the Member States in the period between 2014 and 2020. Both EU data portals provide standardised data, with data export options (machine-readable formats[33]), strive to enhance the user-experience with various data visualisation solutions (see, interactive maps) and easy-to-understand filter options.

[28] For the key policy goals, benefits, good practices and recommendations on open government and as part of it on improving access to public data, see the following open government and data portals: Open Government Partnership - https://www.opengovpartnership.org, OECD - https://www.oecd.org/gov/open-government/, the World Bank open data portal: https://data.worldbank.org, including its open DataBank: https://databank.worldbank.org/databases

[29] See, these countries among the top15 in the Open Government Data Index Rank published by the OECD in 2020, as accessed on 2 March 2022: https://www.oecd.org/gov/digital-government/ourdata-index-policy-paper-2020.pdf. Notably, data for 2017 and 2019 were not available for Hungary in the OECD's Open Government Data Survey from these years.

[30] Directive (EU) 2019/2024 of the European Parliament and of the Council, https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019L1024&from=EN

[31] For more, see https://digital-strategy.ec.europa.eu/en/policies

[32] Notably, municipality- and or geographically identifiable project-level data is not available.

[33] That means, in a format which is appropriate for automated analysis and reuse (ideally, .csv- or xlsx-formats), see: https://kohesio.ec.europa.eu/services. For the Hungarian project-level dataset, contact: https://kohesio.ec.europa.eu/data/projects/

Publication of administrative data on EU co-financed development programmes and projects is an obligation of the European Union as well as the fund-redistributing national authorities at the member states level. It is expected that publication of data on the EU fund allocations will improve implementation, enhance assessment of the programme outcomes and lead to development policies meeting the socio-economic needs of its target groups in a more effective way. Open public data is also necessary (though not sufficient) to give avenue for civil participation and better-informed civil engagement in shaping the government decisions linked to the use of EU funds.

The framework regulation on the allocation of EU funds (EU Directive 1303/2013) for the period 2014-2021 prescribes timely publication of basic fiscal data on the progress of implementation (Art 99) and it defines provisions on how programme administrative data should be recorded and stored in a computerised form within the management and monitoring systems established by the national authorities in charge of the allocation of EU funds (Art 123, 127).[34] The key policy ideas here are that the national authorities must ensure transparency of the programme implementation by giving access to monitoring data on the supported project applications and per EU fund types in a structured format. The emphasis here is on the easy search and sorting functions and on online extraction (Art. 115(2)).[35]

For example, Portugal has just launched the Transparency Portal, an online portal that shares data on measures, projects financed or co-financed by EU funds in real-time. The data can be automatically extracted in machine-readable format.[36]

As per the EU standards, it is also the obligation of the Member States to submit annual implementation reports (Art. 50) to the European Commission on implementation of the operational programmes in the previous financial year and to make these reports along with so-called citizen summaries of its content available to the public (Art. 50(9)).[37]

2. Open data policy framework and practices in Hungary

As an EU Member State, Hungary is obliged to transpose the EU Open Data Directive into its national regulation as well as to harmonise its own national regulations on the use of EU funds with the common EU provisions. While specific laws are in effect on the reuse of public sector information (Act LXII/2012)[38] and on the national data assets (Act XCI/2021)[39], Hungary has not yet notified the Commission about the complete transposition of the Open Data Directive and an EU infringement procedure (INFR(2021)0434) was launched in December 2021 and is still in progress.[40]

According to our own experiences and based on the opinion of experts interviewed, while an open data policy framework in Hungary is evolving, the national digital government strategy and the corresponding government agencies are in place[41], the implementation is weak, gaining access to data

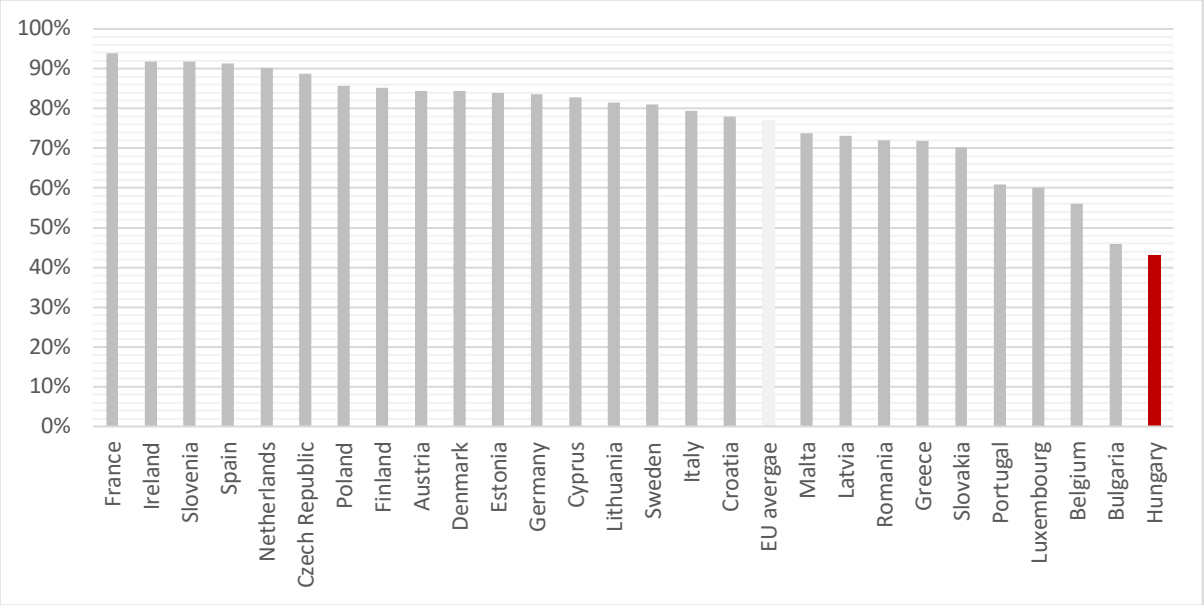
[34] See, Directive (EU) 1303/2013 of the European Parliament and of the Council, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R1303
[35] Ibid.
[36] https://transparencia.gov.pt
[37] In order to encourage the reuse of the published data subsequently by non-government actors (incl. both private or civil stakeholders) the government website or portal shall clearly indicate the applicable licensing rules under which data are published.
[38] See, 2012. évi LXIII. törvény a közadatok újrahasznosításáról (Közadat tv.), https://njt.hu/jogszabaly/2012-63-00-00
[39] See, 2021. évi XCI. törvény a nemzeti adatvagyonról (Natv.), https://njt.hu/jogszabaly/2021-91-00-00
[40] https://ec.europa.eu/atwork/applying-eu-law/infringements-proceedings/infringement_decisions/index.cfm?lang_code=EN&typeOfSearch=true&active_only=0&noncom=0&r_dossier=&decision_date_from=01%252F03%252F2010&decision_date_to=16%252F03%252F2018&EM=HU&title=&submit=Search
[41] The Digital Success Programme was launched by the Hungarian Government in 2015. It aims to build a comprehensive digital ecosystem in Hungary by boosting digitalisation processes both in the public and private sector. It encompasses specific

owned and managed by public hosts is extremely time-consuming, and most importantly, the data quality is problematic. The linking of various public datasets is especially challenging due to inconsistencies in and lack of specific technical rules in the current legal framework.[42]

This mixed overall picture is also reflected in the European assessment on the Hungarian open data policies and practices. According to the most recent Open Data Maturity Report published by the European Commission in 2021, Hungary is classified as 'Beginner' among the EU Member States regarding its open data policies and practices.

Hungary scores 54% out of the maximum 100% in the open data maturity index – as opposed to the EU average score of 81%. The below-the-average overall country score is, however, the result of three low scores out of the four sub-scores – namely, the sub-score in government data quality (42%, the worst performer in this dimension across the EU, see Figure 1.), in data impact (49%), and due to the less user-friendly features and low transparency of government data portals (59%). Notably, Hungary catches up with the EU average only in the open data policy dimension (cf. 79%).[43]

Figure 1. Country ranking for the quality of open data in the public sector



Source: Open Data Maturity Report 2021, https://data.europa.eu/sites/default/files/landscaping_insight_report_n7_2021.pdf

Regarding open data approaches in the public sector, the National Open Data Strategy from Poland could be an inspiring example for Hungary. In Poland, the Ministry of Digital Affairs launched the first national strategy in 2016 and has just recently developed a new one, called Open Data Programme

sub-programmes targeting the educational sector, start-ups and export-oriented Hungarian companies. Two government institutions are in charge of implementing the digitalisation strategies (*Neumann János Nonprofit Kft.*, https://neum.hu) and of coordinating and managing the open data policies (National Data Asset Agency, *Nemzeti Adatvagyon Ügynökség, https://www.navu.hu*).

[42] For more, see https://hirlevel.egov.hu/2021/11/06/epulo-nemzeti-adat-okoszisztema-eloadasok-es-kerekasztal-beszelgetes-a-magyary-szinpadon-infoter-konferencia-2021-oktober-20/. In addition, it should also be noted that civil society organisations, media actors face also severe challenges while trying to access public sector information and generally requesting access to public information *via* information requests – despite the provisions of the Freedom of Information Act (CXII/2011) in effect since 2011, though amended considerably several times over the last ten years. For more, see https://helsinki.hu/wp-content/uploads/2021/03/HUN_NGO_contribution_EC_RoL_Report_2021.pdf, and https://helsinki.hu/en/wp-content/uploads/sites/2/2022/01/HUN_NGO_contribution_EC_RoL_Report_2022.pdf.

[43] For more details, see Open Data Maturity Report 2021: https://data.europa.eu/sites/default/files/landscaping_insight_report_n7_2021.pdf

2021-2027. It focuses on increasing access to high-value datasets published on the national open data portal, on increasing re-use and exchange of data by enhancing data quality, on offering open data related education and training to a multiple set of national stakeholders, and on consolidating a network of open data officers across the public sector.[44]

3. Quick assessment of open data sources relevant for the analysis of the use of EU funds

If we check Hungary's compliance with the EU provisions on the sharing information and data on the progress of the implementation of the EU co-financed development programmes and on the allocation of EU funds with the broader public, we find that actual statistics on the progress of fund allocations is available at the respective government portal (www.palyazat.gov.hu) – aggregated at programme- and measure-level[45], but Hungary does not unfortunately comply with the provision on publishing the annual implementation reports submitted to the European Commission. Neither these reports, nor the so-called citizen summaries of the content of these progress reports are publicly available on the government portal.

Regarding the quality of public data and datasets relevant for a meaningful statistical analysis on the targeting and effectiveness of EU fund allocations, we suggest applying international data quality standards for the quick assessment.

For example, the International Open Data Charter (ODC) defines open data as "digital data that is made available with the technical and legal features necessary for it to be freely used, reused, and redistributed by anyone, anytime, anywhere".[46] In partnership with governments, civil society, and experts from across the globe, in 2015 the ODC developed six principles on how to publish government data. The ODC principles are fairly reflected both by the OECD and by the European Commission in their open data assessments. Consequently, we choose the ODC principles to cross check and to assess the publicly available government datasets relevant to our inquiry on the use of EU funds.

The ODC recommends that public data should be: [47]

1. **Open by default**: It presumes publication of all government data, or alternatively, it requires that if public data is kept closed, public governments need to justify it. At the same time, governments should guarantee that open data will not compromise privacy rights.
2. **Timely:** Publication is on time, not delayed beyond reasonable time span.
3. **Comprehensive:** The publicly available government datasets are comprehensive, accurate, and of high quality. Data is provided in its original, unmodified form.
4. **Accessible and usable:** Data hosts do everything to ease data user-experience and make the data discoverable for the widest range of users. That means, i) access to government data is not time-consuming, it may require only few clicks to find them (see, use of flags/markers, easy-to-find entry points on the portals or homepages), ii) data is machine-readable (published in multiple or multifunctional file formats, ideally in .csv-format), and iii) access is free of charge (preferably, under open licence (of Creative Commons[48]) or access pricing is clear and reasonable.

[44] For more, see https://dane.gov.pl/pl/article/1281,nowy-program-otwierania-danych-na-lata-2021-2027.
[45] See, the menu point 'Actual Statistics' (*Aktuális statisztikák*): https://www.palyazat.gov.hu/aktstat?lang=hu
[46] ODC (2015): International Open Data Charter, p.1, downloaded on 13 March 2022: https://opendatacharter.net/wp-content/uploads/2015/10/opendatacharter-charter_F.pdf
[47] ODC (2022): Open Data Charter – Principles. https://opendatacharter.net/principles/
[48] For general information on Creative Commons licenses, see: https://creativecommons.org/licenses/; for the specific types of CC-licenses, consult: https://creativecommons.org/about/cclicenses/

5. **Comparable & interoperable:** Data is comparable between and within sectors, across geographic locations, and over time. Use of common identifiers and of consistent metadata is key to support data linking.
6. **Improved governance and encouraging citizen engagement:** Public data hosts and managers do engage and consult with the potential data users (citizens, civil society organisations, business sector organisations) on a regular basis and in a transparent way. Official documentation accompanying data is written in clear, plain language, and data users have sufficient information to understand the source, the substantial content, and the analytical limitations of the specific dataset. Public authorities also aim to improve data prioritisation, release (by finding out non-government preferences on data of high demand) and develop their data standardisation practices.
   Good practices here show that for example providing training programmes, tools, guidelines for both government and non-government stakeholders, running regular consultations with open data community (see, civil society or business organisations, watchdogs engaged with freedom of information/access to information, and/or with reuse of public data) could contribute to better data quality and interoperability. In the Czech Republic, for example, a government working group consisting of 14 open data coordinators from ministries and public bodies, consults open data policies, reflects on the institutional practices, and provides open data training for civil servants.[49]
7. **Inclusive development and innovation:** Data hosts play a pro-active role in promoting the effective and innovative reuse of government data in order to maximise the impact and unlock the value of open data.
   Good practices here include: public-private/civil partnerships in development or co-creation of datasets, data visualisations/applications, and other tools based on open data; engagement with actors in public education to support open data research and to improve data literacy (making it part of the educational curricula), capacity-building and sharing technical expertise and experience between government and non-government stakeholders as well as within the public sector.

In what follows, based on these open data principles and recommendations we assessed the Hungarian datasets relevant to our analysis on EU funds. We conducted three interviews with independent researchers and experts from Hungary who have been working with these datasets or are knowledgeable on the legal and practical challenges in the Hungarian data policy. We analysed and structured the conclusions from the expert interviews along with reliance on our own data user experiences within the framework of a workshop organised within the Budapest Institute. The outcomes of our assessment are summarised in the Table below.

[49] See, https://www.vlada.cz/en/ppov/rvis/government-council-for-information-society-74186/.

Table 1. Compliance of public datasets relevant for analysing the use of EU funds with ODC principles

	Relevant Hungarian datasets		
ODC principles on publication of government data	**Administrative data on EU funds (application-level)**	**Local election data**	**Municipality-specific socio-economic data**
Data host and reference to the corresponding public dataset	Prime Minister's Office – *EMIR*	National Election Office – *Helyi önkormányzati választások adata*	National Statistical Office – *T-Star*
Open by default			
Timely			
Comprehensive			
Accessible & usable			
Comparable & interoperable			
Improved governance, citizen engagement			
Inclusive development, innovation			

Legend: green – good, yellow – to be improved, red – not complying
Source: own contribution.

Application-level, administrative data on EU funds – EMIR database

Prime Minister's Office (*Miniszterelnöki Hivatal*) – *EMIR (Egységes Monitoring és Irányítási Rendszer,* Integrated Monitoring and Controlling System): Administrative data on projects benefiting from EU funds is available at the government central portal managed by the Prime Minister's Office (www.palyazat.gov.hu). Administrative details on the supported projects or applications are accessible from the Project Finder application clearly visible on the opening page (*Támogatott Projektkereső*).[50] Data is updated on a weekly basis, structured systematically and consistently across operational programmes, measures and implementation period, but it is not comprehensive, it fails to provide access to the full set of application-level information (e.g., data in some categories, for example, project outputs, sum of last payments, are registered but not published on the public website). In addition, publication is also missing on failed project applications (neither at application-, nor at any higher, aggregated level), and, while the existence of a data export option is indicated (upon registration), it did not work when we tried to use it. A download option in machine-readable (.csv format) is there, but a failure message is received instead of successful download.[51] That is unfortunate, since the data contains unique project identifiers which are otherwise very useful for linking this dataset to other ones. In sum, before any automated, robust statistical reuse of this dataset, firstly, various data scrapping methods are necessary to build a machine-readable version[52], and, secondly, additional public data requests must be addressed by the data host (covering missing variables in the public version and data on not-successful applicants).

[50] *https://www.palyazat.gov.hu/tamogatott_projektkereso*
[51] Notably, the .csv-download option is visible only after registration, and inquiries on the failure message were not addressed by mid of March 2022.
[52] As it was done and then published by a non-government, research think tank, see the EU funds dataset published by the Corruption Research Centre Budapest: https://www.crcb.eu/?p=2863 (Accessed: 10 December 2021).

Local election data – 'Helyi önkormányzati választások'

A complete, machine-readable (.xlsx format) dataset on the results of the last local elections in 2019 is accessible at the homepage of the National Election Office (*Nemzeti Választási Iroda*).[53] It is published very quickly following the election dates. While data on previous local elections are also available, it should be noted that they are published in a different data structure (e.g., data fields, variables vary across the datasets over election years) and therefore considerable effort is required by data users to systematically link and merge the various election datasets across time. Moreover, linking with other datasets could also be more supported by introducing numerical unique identifiers (for example, by including postal codes, not just the name of the settlements).

Municipality-specific socio-economic data – T-Star database

Various socio-economic data on municipalities is available *via* the *T-Start Database* managed and hosted by the Hungarian Statistical Office (*Központi Statisztikai Hivatal, KSH)*.[54] While it is public and accessible following a registration process (which is not automatic but requires some administration and official confirmation by the Office), finding downloads in machine-readable format is rather time-consuming. Quick, max. two-click access to the database is not provided at the opening page, the potential data users need to map an extensive webpage menu to arrive at the specific sub-site of the database and finally to get to the download options. Orientation at and understanding the highly technical content of both the official portal and of the T-Star database is not intuitive and it requires track record in user/researcher experience. Finally, the publication of up-to-date data may take considerable time and it is usually in delay with at least two financial years which is fairly beyond reasonable.

Official documentations accompanying the published datasets are either missing (*EMIR*) or are highly technical, miss clear, plain language summaries, so first-time data users may not have sufficient information to understand the source, the substantial content, and the analytical limitations of the specific datasets.

Generally, all these government data hosts could be improved with respect to encouraging citizen engagement and make their data governance framework more transparent and progressive. Quick, one- or two-click accessibility of open data, publication of accompanying documents drafted also in plain language (or publication of versions in plain language, as well – beside the technical notes), and sharing contact information on public data requests could be easily introduced in all these cases. Innovative solutions (such as, data maps for citizens, summaries for citizens/media on EU programme performance) would help potential internet visitors to have a better overview on available government data and orient them in better reuse of these public datasets.

In sum, Hungary fails to coordinate and manage its data policy framework in a transparent and institutionalised way and, while the legal framework is more or less in place, the implementation, the enforcement of the effective rules on access to public information and data is weak.

Both anecdotical evidence, our expert interviews and our own researchers' experience suggest that consultations on the structure, content and linking of the public data sources are, when they can take place at all, usually *ad hoc* and informal – both within the government sector and between the public data hosts and potential re-users (see, primarily, researchers from academia and policy experts). Besides the lack of transparent public consultation processes, the publication of appropriate accompanying documents and the systematic collection and analysis of user-experiences seem to be often missing, or at least, not published and reflected on the corresponding websites. Institutional

[53] https://www.valasztas.hu/helyi-onkormanyzati-valasztasok-2019
[54] *https://statinfo.ksh.hu/Statinfo/themeSelector.jsp?lang=hu*

incentives for data hosts to learn about good practices and eventually innovate their data publishing practices are absent.

The recently re-organised National Data Asset Agency (*Nemzeti Adatvagyon Ügynökség*, *NAVÜ*, set up originally in 2020) is in charge of the overall coordination and management of the open data policies in Hungary. It operates under the supervision of the Prime Minister's Office.[55] As part of its legal mandate adopted in 2021[56], the NAVÜ will play a pro-active role in setting up a more transparent and inclusive governance framework where for example user-experience and -satisfaction with government data portals are systematically collected and published (see, portal visitor analytics are subject to regular, in-depth analysis), where a multi-stakeholder public consultation process is ongoing between data hosts and (potential) data users, and where linking of different government datasets and databases is technically accomplished. While the NAVÜ competences and tasks are clearly regulated, the development of the Agency's capacities is in progress – as both our interviewees and some recent media news suggest.[57]

Finally, it should also be noted that the Hungarian National Treasury (*Magyar Államkincstár, MÁK*) hosts the data on the fiscal transfers allocated to local governments in Hungary, comprising also the intragovernmental transfers financed exclusively by the central budget (beyond the EU co-financed transfers). We did not include this data publication here, since it shares aggregated data, that is, not broken down by settlements/municipalities, but only by transfer types (operational costs, policy-specific supports, such as public health, education and cultural activities) and by months.[58]

4. Recommendations for improving the open data policy framework in Hungary in general and to fit open data principles in the policy areas relying on EU funds in particular

Hungary – National Data Asset Agency and the national legislators

Strengthen governance, boost citizen engagement

- ➔ Engage with actors from the civil sector, media and academia in the design and monitoring of open data practices and improve mechanisms that support the discoverability, the accessibility and reuse of open government data.
- ➔ Develop a national strategy for open data and align it with the broader strategies at national level (especially, with the Digital Success Programme and the actual public administration reform initiatives).
- ➔ Fully harmonise the national legal framework with the EU Open Data Directive, eliminate inconsistencies.
- ➔ Build capacities and competencies at the National Data Asset Agency in order to enhance its policy coordination role, to speed up the completion of data linking requests and to support reuse of government data both by academic, civil and business stakeholders.

Improve data quality and highlight the social and economic value and impact of open data

- ➔ Follow EU best practices by pro-actively supporting data providers in the public sector in their publication process (by boosting data literacy via trainings, by setting up a network of open data liaison officers in data host institutions, or by helping local- and county-level authorities in building their data manager capacities).

[55] See, https://www.navu.hu/kozerdeku-adatok

[56] See, the secondary regulation on (re)use of public data, 607/2021. (XI. 5.) Korm. rendelet a nemzeti adatvagyon hasznosításával összefüggő egyes részletszabályokról, https://njt.hu/jogszabaly/2021-607-20-22 Accessed on 12 March 2022.

[57] For more, see https://hirlevel.egov.hu/2021/11/06/epulo-nemzeti-adat-okoszisztema-eloadasok-es-kerekasztal-beszelgetes-a-magyary-szinpadon-infoter-konferencia-2021-oktober-20/.

[58] See: http://www.allamkincstar.gov.hu/files/Mérlegek/onkormanyzat/Onk_idosor_2021_04.xls

➔ Participate and join the OECD's Open Government Data Survey from 2022 onwards and re-join the club of countries participating at the Open Government Partnership international initiative (despite Hungary's exit of this partnership in 2016).

Hungary – Public data hosts relevant in the case of EU funds

Improve data quality and accessibility

➔ Follow open data standards and practices by supporting data users in interpreting and understanding the published data sets (e.g., upload of citizen data maps, introduction of plain language-based accompanying documents).

➔ Revise the access to open data sources on the institutional website (*palyazat.gov.hu*) and ease discoverability (e.g., inserting marker/one-click bottom on the entry site, re-structuring the website menu to provide max. two-click access to the dataset on supported projects)

➔ Improve the quality of data (e.g., reduce missing data categories), build in machine-readable data export options (see, functioning download options in machine-readable formats, especially in .csv- and .xlsx-formats).

Strengthen governance, boost citizen engagement

➔ Organise a series of open data events at the institutional level and start an open and structured dialogue with potential re-users.

➔ Set up online and in-person communication channels and contact persons for data publication within the organisation (e.g., establishing an open data liaison officers).

EU level – Directorate-General for Regional and Urban Policy, Directorate-General for Communications Networks, Content, and Technology

Doublecheck open data policies and practices, help boosting enforcement

➔ Consult on a potential national strategy for open data and its consistency with existing line strategies (especially, with the Digital Success Programme and the actual public administration reform initiatives).

➔ Enforce the compliance with the EU/ODC open data principles – with a special eye on data quality.

➔ Monitor the publication of data on the use of EU funds and check regularly for compliance with the provisions of relevant EU regulations.
EU civil servants, in monitoring the progress of EU-funded projects, should make it a rule to use, wherever possible, Hungarian public monitoring data instead of asking for input by correspondence from their Hungarian colleagues.

➔ Ask for systematic collection of experiences of open data (re)users in Hungary and for analysis of data user experiences and satisfaction on a regular basis.

➔ Cover open data policy issues in the European Semester and include government data-oriented analysis and suggestions into the Country-Specific Recommendations.

➔ Suggest using EU technical assistance i) to build government capacities in easing access to public datasets, in improving data quality by highlighting the social and economic value of open data, and ii) to screen and adapt relevant open data good practices (examples from relevant benchmark countries, such as new Member States (e.g., Poland), or from Portugal could be inspiring).