Central Government Fund for Local Investments: a needs-based or a politics-based scheme?

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Introduction. Pandemic shock to local government finances

While the pandemic has put both central and local government finances under considerable strain, local and regional authorities find it much harder to cope with the hits their budgets are taking. An analysis by Paweł Swianiewicz and Julita Łukomska shows that revenues have fallen most sharply in major cities (county capitals), followed by suburban municipalities of conurbations and other major cities. What is worse, things got tougher for big cities before the pandemic already, a consequence of personal income tax changes and the widening gap between government funding for education and actual spending.

Hit by the financial consequences of the pandemic, local authorities endured a long wait before they received central government support. Once finally there (although scarce) in the form of the Central Government Fund for Local Investments (the CGFLI), the funding created a divide into categories of “better” and “worse” or perhaps “our” and “your” local authorities. With an extremely non-transparent procedure and arbitrary evaluation criteria, the money seems to have been split based on the local authority’s political colours.

While the criteria we used to investigate the CGFLI differed slightly from those applied by professors Paweł Swianiewicz and Jarosław Flis, the results are similar. It seems that the local

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A fact worth noting is that the pandemic has mostly affected the economies of the bigger cities with local authorities having to step up support. As an example, if cities did not reduce rent on their commercial property this could be the final nail in the coffin for many businesses (such as restaurant owners) whose income fell dramatically during lockdown. With the economy now worse off, the demand for welfare benefits is rising. Cities have found themselves trapped in between tumbling revenue and growing expenditure in many spheres.

Initially, the government only offered to ease the rigours of budgetary balances and debt limits.

This, however, is a dead end street or a ticking time bomb. Local authorities must be more careful with their debt policy than the central government. Unlike the state they lack the capacity to manage their debts or revenue policy. As an example, local authorities do not have the power to levy new taxes and fees or determine the rates freely. Neither do they own such substantial assets. Finally, they are not able to "print" extra money which is what we see governments do at the national and European level.²

It took several months before the government offered a more concrete financial support to local authorities which is the Central Government Fund for Local Investments. It was originally designed to feature two components:

- PLN 6 bn distributed among all of Poland's municipalities (gminas) and counties (poviats) using an algorithm that looks at the financial condition, amount of investment expenditure planned and population. This element of the support was the least controversial because the subsidy was determined on objective criteria, making it similar to the mechanisms applied in European countries such as the Czech Republic, Sweden or the United Kingdom.
- PLN 6 bn distributed by the prime minister of Poland in a competitive process inviting investment bids from all local authorities.

Eventually, the second component of the CGFLI was split into three parts: (1) PLN 4.35 bn allocated based on the results of a call for proposals conducted in mid-December 2020; (2) PLN 1.65 bn set aside to be used in a separate call for proposals which has not been finalized yet; and (3) PLN 250 m (an additional amount in excess of the basic PLN 6 bn) as support for rural municipalities, formerly home to state-owned farms (competition pending).

Our analysis focuses on the first call for proposals. Its results caused great controversy both among local authority officials and the public. Critics claimed that the procedure lacked transparency. Pretty soon new allegations appeared of a link between grants and local authorities’ political colours. History seems to repeat itself as the Local Authority Roads Fund was more generous to local authorities

with stronger affiliations to the central government. This paper aims to verify the extent to which the prime minister's decisions on the CGFLI feature a similar relation. To start with, we will also look at the design of the procedure and how strongly it ensured that CGFLI money was allocated fairly and that local authorities were kept safe from arbitrary decisions.

**The Procedure: an invitation to taking arbitrary decisions**

The process for allocating CGFLI subsidies is regulated by a resolution of the Council of Ministers of July 2020. It sets out three stages of the procedure:

- Local authorities (municipalities, counties, regions) submit to the prime minister (via their relevant governors) applications for support for investment projects with a total budget not lower than PLN 400,000. There were no minimal or maximal grant amounts or maximal or minimal shares of government grants in the project's overall budget. Each local authority was allowed to submit any number of grant applications.
- Applications were to be evaluated by the Committee for Local Authorities Support appointed by the prime minister. Its members included representatives of the prime minister and other ministries. The makeup of the Committee was not made public. We were able to learn who the members were by requesting access to public information. There were no representatives of local authorities, neither as Committee members nor observers.
- The prime minister authorises payments based on the Committee's recommendations.

It is evident that the Committee for Local Authorities Support became the key actor taking responsibility for evaluating grant applications and recommending projects for funding. The Committee was free to make its own decisions. With no cap on the grants or detailed project selection criteria or the need to explain the reasons for the scores, the Committee's only duty was to "consider" topics such as:

- principle of sustainable development,
- comprehensive nature of investment projects,
- reduction in emissions and the level of the project's impact on the environment,
- cost of the project in relation to the authority's planned revenue in the first year of the project,
- number of people positively impacted by the project,
- relation between the cost of the project and expected outcome,
- effect of the project on minimising the consequences of natural disasters or preventing them in the future, where applicable,
- ensuring accessibility within the meaning of the Act of 19 July 2019 on ensuring accessibility for people with special needs (Journal of Laws of 2020, section 1062).

While each of the above may deserve a separate dissertation, it is pointless to interpret them because the Committee was not required to analyse grant applications for how well they met the criteria or assess the implementation (e.g. using a scoring system). Neither were they required to justify their decisions.
choices. This made the Committee a very powerful body and its members were given a go ahead to distribute the funds as they saw fit – with no caps on the actual amounts, concrete criteria, justification or explanation. In a sense, the Committee was given free rein.

Clearly, the procedure deserves an unequivocally critical assessment. Designed to appear fair and fact-based, the procedure is in fact an invitation to arbitrary evaluations or at least paves the way for such appraisals. Political connections and clientelism seem to take centre stage rather than well-grounded grant application procedures.

With local decisions taken at the central level it should be stressed that the model itself is dysfunctional and goes against the idea of decentralisation and subsidiarity. Not only is central government unable to access all the information it needs to verify project rationale, but first of all it steps into local authority shoes. As a result, the model interferes with the state’s sound “division of labour” which is all the more unsettling when you consider the enormous workload the government administration must take on during the pandemic.

The CGFLI in practice: politics does matter
Despite the lack of transparency, a clear majority of local authorities applied for the CGFLI funds. According to the data from the Chancellery of the Prime Minister 2,780 local authorities submitted grant applications with just about 30 declining the offer. Because each local authority was able to submit an unlimited number of applications, the total number of investment projects was in excess of ten thousand.

Here we are faced with the first fundamental question – with a Committee of several members, how was it able to carry out a thorough and comprehensive evaluation of such a high number of applications? Clearly, an impossible task, especially because each Committee member is burdened with other duties as well. Even if the entire bureaucratic apparatus were to come to the rescue, it would all come to nothing given the lack of specific and measurable evaluation criteria. Conducted by Civic Coalition MPs, a parliamentary control revealed that the Committee never even held a meeting and only needed a very short time (a day) in a written procedure to formally approve funding recommendations elaborated by the Chancellery staff whose names have not been disclosed6.

It is quite clear that the evaluation procedure was flawed, yet we cannot be sure that political criteria have played a determining role in how the funding decisions were taken. While we will probably never find out what went on behind the CGFLI scenes, we can try and examine the relation between grant decisions and the political colours of local authorities. There are different ways to study the intensity of the relation. Our analysis is based on information we have sourced through the access to public information procedure (and CGFLI data it has published). We examined the issue from three perspectives:

- What was the success rate with the grant applications for municipalities with the strongest support for the ruling party and for municipalities that support other (opposition) political forces?

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We classified municipalities based on their support given to Andrzej Duda and Rafał Trzaskowski in the second round of the 2020 Polish presidential election.

- In the context of the CGFLI, how accurate was the opposition’s popular hypothesis that PiS (Law and Justice party) discriminates against big cities (county capitals) run overwhelmingly by opposition or independent local leaders?
- How has the political colour of a region measured with regional assembly election results translated into the distribution of funds to the regions?

Our study can be treated as complementary to the work of professors Jarosław Flis and Paweł Świankiewicz. In both studies, the problems are the same and the data and methodologies are similar. The main difference lies in the detailed criteria for data assessment.

**Municipalities**

Just as Jarosław Flis and Paweł Świankiewicz we assumed that municipalities are the main actors of local politics with responsibility for investment and the quality of life. Our study looks first of all at the basic units of local authority. Based on National Electoral Commission data, we have put together two groups of municipalities (with 100 municipalities each) where each of the candidates had the strongest support in the second round of the 2020 presidential election. As a result, these particular municipalities and their populations are very clear about their political affiliations. County capitals are excluded from the groups and will be discussed separately. In several cases additional municipalities had to be added to make up for those that did not apply for CGFLI funding. It is important to note that the municipalities from Andrzej Duda’s “Top 100” showed a very clear preference for this candidate with support rates of at least 84 per cent of the voters, in some of the municipalities. In the case of Rafał Trzaskowski, the last municipality on his “Top 100” list gave him a support of slightly above 60 per cent.

Both groups have scored quite differently on their effectiveness in securing the funds in absolute values. Municipalities from Andrzej Duda’s “Top 100” have earned more than PLN 126 million compared to Rafał Trzaskowski’s “Top 100” PLN 89 m. Considering the combined value of applications submitted by both groups, the gap in the success rate widens even further (Figure 1). Municipalities which support the government have obtained 18 per cent of the amount requested while those more inclined towards the opposition have ended up with a mere 5.5 per cent. There is one more factor to be considered. Government-backing municipalities are predominantly small, i.e. with a population of less than ten thousand (nearly 90 per cent of municipalities).

More than half of opposition backing municipalities have bigger populations. The average Andrzej Duda’s “Top 100” municipalities has 6,600 inhabitants compared to 15,700 in Rafał Trzaskowski’s “Top 100” municipalities. To get a more complete and more objectified picture of how the funds were allocated, we have calculated the global amount of grants received per capita. The figure below shows the results.7

While in absolute categories the numbers are not very impressive, they make it quite clear that although opposition-backing municipalities asked for much more money, they got three times less per capita than in ruling party enthusiast municipalities. It can be said that this does not have to be politically driven and that it is simply the state’s policy to support the smaller (meaning weaker) munici-

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palities. But there is nothing in the CGFLI act to corroborate this. At this point it should be noted that the result shows the same tendency identified in the work by Flis and Swianiewicz who demonstrated that in municipalities with PiS leadership the average subsidy is more than PLN 250 per capita whilst in those run by senate bloc authorities the amount is ten times less. And so when local authorities are viewed from the perspective of the political colour, the “political bias” of competition results was even stronger than in the case of the criterion of presidential election results.

Besides, even if the objective was part of a hidden agenda, there is no consistency in how it was to be achieved. In both groups, the municipalities receiving the money differed significantly in terms of their size and wealth. Our studies confirm the conclusions of Flis and Swianiewicz which is that there is no consistent rule of providing support to smaller or poorer municipalities. As an example, the highest grant in Andrzej Duda’s “Top 100” went to Stara Błotnica in the region of Mazowieckie (5,500 population) whose income per capita places it in the fourth hundred nationally. There was not enough money for the municipality of Czyże in the region of Podlasie with a population of less than two thousand (Rafał Trzaskowski’s “Top 100” municipalities) which is one of Poland’s two hundred poorest municipalities. Funding was not an issue in a better off and three times bigger municipality of Sokoly in Podlasie which was in receipt of PLN four million. Eighty six per cent of the municipality population voted for Andrzej Duda.

![Figure 1. Amounts requested and received from the CGFLI [PLN M]](image)

![Figure 2. Amounts received from the CGFLI per capita](image)

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8 Ibidem, pp. 6–8.
Cities with county rights

County capitals deserve a separate mention not just because they deliver more public services than municipalities, but also because they have been hardest hit by the financial consequences of the pandemic and the ruling party has a decisively weaker position there. Rafał Trzaskowski beat Andrzej Duda in more than two thirds of 66 county capitals. What is more, only two of county capitals are ruled by mayors with PiS background (Chełm and Zamość).

Sadly, there is reason to believe that politics took over, side-lining the county cities’ real needs. County cities have received a total of PLN 357 million which is significantly below 1/10 of the total allocation for municipalities and counties combined, even though these cities are inhabited by nearly one third of Poland’s population. If we add up the grants allocated, the amount per capita is a mere PLN 55.33, which is even less than in the group of one hundred municipalities with the strongest support for the opposition. If we exclude Chełm and Zamość, the average will fall to PLN 46.43. It is worth stressing that the average grant per capita was higher in cities where Andrzej Duda was the winning candidate in the second round of the presidential election. More than half of the cities, including a majority of regional capitals, had to do without the money. They included Wrocław, Gdańsk, Kraków, Poznań, Lublin, Rzeszów, Białystok and Warsaw (which applied for PLN 1.2 billion). In all these cities mayors are far from PiS, to say the least, and triumphantly voted Rafał Trzaskowski, with the exception of Rzeszów. Of the ten county cities which made Rafał Trzaskowski a clear winner, only Leszno (with an independent mayor) received a grant.

Obviously, not all opposition-linked cities – whether through election results or the mayor’s affiliation – were left with nothing. The top ten biggest beneficiaries include such interesting cases as Koszalin and Bydgoszcz in receipt of substantial subsidies (PLN 24 and 25 m, respectively), despite a complete lack of sympathy with PiS. These cases are an exception from the general trend.

County cities would be even worse off if it was not for an interesting relation. More than one third of all funding for county cities went to seven cities that form part of the decision-maker’s, i.e. prime minister Mateusz Morawiecki’s constituency; Piekary Śląskie, Ruda Śląska, Myślowlce, Świętochłowice, Tychy, Katowice and Siemianowice Śląskie. A total of PLN 132.5 m was granted. The constituency’s only county city to not have received a grant was Chorzów. It is worth noting that Chorzów is the only city in the “prime minister’s” constituency to be run by a Civic Platform mayor. The “lucky seven’s” political affiliation of the mayors is different or at least none of them is just as strongly associated with the opposition. Those with the strongest links to the ruling party include the mayor of Myślowlce Dariusz Wójtowicz (member of Mateusz Morawiecki’s honorary committee for the parliamentary election) and the mayor of Świętochłowice Daniel Beger (member of Andrzej Duda’s honorary committee in Silesia for the presidential election). The mayors of Siemianowice Śląskie and Katowice also won the recent election backed by PiS.

As regards the population criterion, prime minister Morawiecki’s “lucky seven” represents a mere 6.5 per cent of the population of all county cities, yet it received 37 percent of county city funds. Świętochłowice and Myślowlce have received about PLN 500 per capita, much more than the average calculated above for municipalities where the ruling party enjoys the strongest support. In this context, it is worth noting that both cities would qualify for what the US calls “swing states”, i.e. spots on the electoral map with no clear advantage of one party over the other. In both cases Rafał Trzaskowski won by a small margin in the presidential election. This suggests that as well as supporting their

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9 Constituency no. 31 in the parliamentary election.
constituencies, they are employing the tactic of winning back those cities from the opposition using public money.

There were no surprises for Chełm and Zamość which received their share of the subsidies. Chełm in particular is an interesting case of PiS’ policy of new centralism. With the PiS candidate winning the 2018 mayoral election, the ruling party saw this as an opportunity to build a model "local authority relation with PiS". Designed to encourage the people of other cities to make similar choices, the idea is to show that electing a PiS candidate means concrete and tangible benefits for the municipality coming from Warsaw. In this case, this would be launching a shared services centre for the National Health Fund or the Social Insurance Institution. Another benefit is PLN 25 m from the CGFLI because the inhabitants made the "right choice". The case of Chełm tells the story of a good local authority à la PiS that knows how to get things done in Warsaw. The approach reveals a centuries old mechanism of political clientelism – there are "gifts" to be had in return for political backing. This obviously contradicts the independence of local government and decentralisation but seems to be the political strategy the government pursues towards local communities.

The sum up, things look very pessimistic for county capitals. More than half have not received any funds at all and those that were lucky enough to get some feature a surprisingly strong representation of cities from the prime minister's constituency and cities run by PiS mayors. Cities from the prime minister's constituency represent half of the top ten of the CGFLI's biggest beneficiaries among cities with county rights. It is probably safe to say that funding for these cities was allocated along these particular lines. Having a political connection with the decision-maker proved even more beneficial for local authorities than their political colours.

Regions

Finally, let us take a bird's eye view of how the CGFLI money was allocated, or more specifically, how the total sums were distributed among a region's local authorities. When viewed from this perspective, the problem takes on a different picture and we can verify claims made earlier on, at lower levels of the analysis. What makes a regional approach more tempting is that Poland is commonly believed to be split into two politically different parts according to regional assembly election results: 1) the land of PiS comprising Dolny Śląsk, Małopolska, Śląsk, the regions of Łódzkie, Świętokrzyskie, Lubelskie, Podlaskie and Podkarpackie; and 2) the land of the opposition including Wielkopolska and the regions of Lubuskie, Opolskie, Mazowieckie, Warmińsko-Mazurskie, Kujawsko-Pomorskie, Pomorskie and Zachodniopomorskie. Let us see how this clearly simplified diagram of the political divisions is aligned with the CGFLI subsidy distribution. The figure below shows the subsidy rate per capita per region.

What we have found is that the regional split is an almost perfect match (adjusted for Dolnośląskie and Zachodniopomorskie) for the region's political preferences.

What is more, the distance between the extreme ends of the ranking is substantial with Wielkopolska receiving three times less per capita than Podkarpackie. In total amounts PiS regions also feature a clear advantage with 61 per cent of the funds transferred to eight regions run by PiS. Just as with municipalities, this is hardly a case of addressing regional economic disparities because there is no correlation to the development rates of the regions such as GDP per capita. No objective variable features as strong a relation with the distribution of the funds as a region's political colour.
As well as considering the global allocation to all local authorities in the regions, we should also look at how the money was divided between regional governments. The overall contribution amounted to PLN 327 m, but nearly 90 per cent of the money was allocated to eight regions run by PiS (Figure 4) even though they applied for an almost identical amount as the opposition-led regions. The regional government of Podkarpackie hit the jackpot as it cashed PLN 120 m, almost three times more than Łódzkie or Podlaskie (also run by PiS) ranked just below it on the list. Four regions received PLN 0 – Opolskie, Mazowieckie, Wielkopolskie and Zachodniopomorskie and all are run by the opposition. The split between opposition and ruling party regional governments is almost 1:9. What is striking is how this relation is aligned with Flis and Swianiewicz’s observation regarding local authorities representing the two political blocs (the relation there was 1:10).
Conclusions

- The financial crisis caused by the COVID-19 pandemic has affected all local authorities. Big cities have been hardest hit (county capitals). With falling revenues (the biggest fall on record) and growing expenditure to help local business affected by the lockdown, the cities found themselves in a financial trap.
- Central government took several months before it launched financial support for local authorities which was real yet far from sufficient, i.e. the first tranche of the Central Government Fund for Local Investments worth PLN 6 bn. This was a positive step because the money was allocated to local authorities based on an objective algorithm and not at government discretion.
- The handling of the second part of the CGFLI (the December 2020 distribution of a further PLN 4.35 bn) paints a different picture. The procedure of the call for proposals alone heralded the possibility of arbitrary and non-technical funding decisions rather than needs-based ones. There were no minimal or maximal funding thresholds or detailed project selection criteria. No local authority observers were invited to take part in the evaluation process. No justifications or evaluation details were offered for the decisions and the facts revealed by a parliamentary control show that the evaluation committee limited itself to approving a list of applications already elaborated outside the official procedure.
- There is real concern about how the funds were allocated. The recurring pattern was as follows: the closer the local authority was to the ruling party, the more they benefitted from the CGFLI. This can be observed at several levels:
  - with the results of the second round of the 2020 presidential election as a criterion, municipalities linked to the opposition received three times less funds per capita than municipalities which are supportive of the ruling party;
  - cities with county rights hardest hit by the financial crisis most of which are considered "bastions of opposition" have been given disproportionately low amounts compared to their populations with many receiving no money at all;
  - it was not just cities run by PiS mayors (Chełm and Zamość). The most triumphant contestants in the funding efforts were seven cities from prime minister Mateusz Morawiecki's constituency (and he made the funding decisions). They received more than one third of all funds given to
county cities, despite being home to a mere 6.5 per cent of the total population of these cities. The only city from prime minister’s constituency to have not received any money was Chorzów. The open question is if this is related to the fact that the city’s mayor is the constituency’s only mayor to be a member of the Civic Platform.

• another reason for concern is how the political colours of local authority leaders and grant decisions are aligned, a fact that can be observed from the distribution of funding at the regional level (all local authorities in a region). Subsidies per capita form an almost perfect pattern of PiS run regions (8) at the top and opposition run ones (8) at the bottom. It becomes even clearer as regards funds transferred to regional governments with 90 per cent of the funds transferred to eight regional governments controlled by PiS.

**What next?**

There is a lot to suggest that clientelism is the central government’s main stance on local authority policy and a signature symbol of PiS’ new centralism. Local government is not dismantled by targeting its political foundations, instead by leading local communities and local leaders to believe that the road to satisfactory solutions to local or regional needs leads through political connections with central government or party decision-makers. Government rewards local communities who have chosen the “right” political option and punishes those that are not loyal to the ruling camp. In the context of the pandemic troubles local authorities are in, this makes for an outrageous strategy. It also contradicts the idea of local government independence and decentralisation which assumes a bottom-up building of local community strength (e.g. by expanding the base of local authority revenues), rather than waiting for benefits to come from the capital. Finally, the model is disastrous in terms of the effectiveness of central government. How can the government, after all, fighting a constant losing battle with the pandemic at its height, afford to waste its limited resources on reviewing ten thousand funding applications? Does the government really not have other problems to deal with? Why did they not simply repeat the mechanism for allocating funds they used in the first rollout of the CGFLI?

In turn, local authorities may respond with legal action. The regional government of Mazowieckie has already indicated it was going to appeal against these decisions in the administrative court. As much as it is not clear whether judicial control is allowed and the topic deserves a separate discussion, administrative courts should be able to speak on the matter, especially given the fundamental importance of the relations between central and local government.

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