

INTERTERRITORIAL COMPENSATION FUND – AN INSTRUMENT FOR FINANCING SPANISH REGION

Summary

Our present discussion analyses the evolution of one basic financial instrument in the Spanish regional policy. Spain is called the state of autonomy, meaning that her regions enjoy a very high degree of independence, particularly financial independence. It has to be noted, though, that individual regions are different in terms of their development. The level of variations can be illustrated by their contribution to GDP. Only three autonomous communities – the region of Catalonia, the Basque country and the Community of Madrid generate approx. 50% of Spanish GDP. Such sizeable disproportion produces many serious economic and social effects. To prevent their consequences and to implement the solidarity principle provided in the Spanish Constitution effectively, an instrument reducing variations in regional development and helping provide across the state services of similar quality was introduced. This instrument is the Interterritorial Compensation Fund (*el Fondo de Compensación Interteritorial – FCI*). It was established in 1980, initially as a solution included in the autonomous communities' financing law and then regulated by a separate act. The instrument evolved due to changes made to its content. The amendments primarily concerned the amounts of financial resources due to the Fund from the state, the spending targets, rules for distributing the resources among the communities and definitions of the benefiting regions. The Constitution provided generally that the Fund would finance real investments. Then the definition was fine-tuned by specifying their types: local (communal), provincial or regional infrastructure, public works, irrigation-related projects, cleaning a region, residential building, improvement of the living conditions in rural areas, improvements of transport and communication and, generally, all kinds of investment projects helping reduce variations in incomes and wealth of populations living in different regions. The Fund's resources were first distributed among all autonomous communities and then among the most underdeveloped ones. The conclusive criterion for funds distribution is the number of population living in the territory of a community. Since 2002 the Fund has been divided into two parts: the Compensation Fund and the Supplementary Fund. Allocation rules have been changed. The presented analysis of the 2002–2004 data shows that the Fund's largest beneficiary is Andalusia – receiving ca 40% of the resources and Extremadura – around 16%.

Translated by Janusz Kwitecki