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**Regional development in Hungary  
and its preparation for  
the Structural Funds**

**by  
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**Series editor**

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**Zoltán GÁL**

**Pécs  
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This discussion paper is based on a doctoral thesis carried out by Simone Rave and Paulina de Jong in Hungary. The central theme of the research was the problems with the implementation of the Act on Regional Policy and Physical Planning of 1996 as preparation for the EU Structural Funds. The research is based on literature as well as interviews at the national level and the regional level in Hungary and at the EC in Brussels. Presently the author of this discussion paper works at NEI in the Netherlands as an advisor in the field of regional policy and the Structural Funds.

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## **1. Introduction**

The European Union recently faces two major challenges; the introduction of the Euro and the extension of its own territory. The first one has already been implemented on the capital market and will be implemented as a currency in 2002. But what about the extension of the EU? There have already been a lot of speculations about this topic. The countries which will enter during the first round can't wait to join the EU. However the problems facing the EU when passing the millennium and the introduction of the Euro are very unknown yet. Therefore no promises have been made and there is still no fixed date.

Nevertheless Hungary will most probably be among the first to join the European Union. Joining the European Union involves a lot of political and economic advantages. One of these economic advantages are the Structural Funds introduced by the EU to reduce the regional economic inequality among its member states. However it also means that Hungary must be able to adopt the *Acquis Communautaire* and related to this the requirements and principles of the EU Structural Funds. In this discussion paper attention will be paid to the problems for Hungary in adopting these requirements with regard to regional policy. The paper will concentrate mainly on the adoption problems at the regional level and not on the macro level. The first chapter will give a short summary of the history behind the Structural Funds. In the second chapter shortly attention will be paid to the current situation in Hungary. In 1996 Hungary made the first step by introducing the Act on Regional Policy and Physical Planning. Although the institutional structure has been laid down it appears very difficult to implement the Act in a proper way. Therefore the third chapter will deal with two case studies; Baranya and Szabolcs-Szatmár-Bereg. During a research in Hungary about the implementation of the Act of 1996 there have been several interviews in these two counties, to analyse the present situation in regional policy.

Since Hungary will be entirely Objective 1, chapter 4 will deal with a case study of the former Objective 1 region Ireland. This case study won't function as a model for Hungary how to implement the Structural Funds, but it will function as an example. Learning the strengths and weaknesses of another system can be useful when developing and adopting an own system.

Finally, chapter 6 will highlight the main conclusions with regard to the present situation in regional policy in Hungary and will put forward some solutions for the current problems.

## 2. The Structural Funds and the European Union

The Structural Funds are the most important instruments of European Union to reduce inequality among its member states. A union can only resist disintegration when the differences are not too large. Especially with the introduction of the Euro, which means that there is one instrument less to adopt to changing circumstances (namely the exchange rate), differences should be reduced to the maximum. In this chapter the aim and functioning of the EU Structural Funds will be explained. Since the European Union became larger and larger, the aim and procedures of the funds changed during the years. In general the procedures have become more severe, since the money involved also grew considerably throughout the years. The most important changes in the procedures will be highlighted in this chapter.

### 2.1 Its main aim

The Structural Funds have been introduced in 1975 in the European Union for the first time, by the introduction of the European Regional Development Fund (ERDF). Later on, three additional tools were added, nevertheless all at a different time. The four funds are respectively:

- European Regional Development Fund (ERDF) established in 1975. This is the most important fund and its aim is to reduce regional imbalances between and within the European member states.
- European Social Fund established in 1988 (ESF). Its aim is to reduce structural unemployment and to improve the deployment of young people. In 1993 its additional aims became to reinforce Structural Adjustments in the industry.
- European Agricultural Guidance and Guarantee Fund (EAGGF) established in 1962 as a part of the Common Agricultural Policy (CAP). Its main aim is to promote structural adjustment in agriculture, to modernise production and to develop rural areas.
- Financial instrument for the Fishery and Guidance fund established in 1994. It support the restructuring of the fisheries sector.

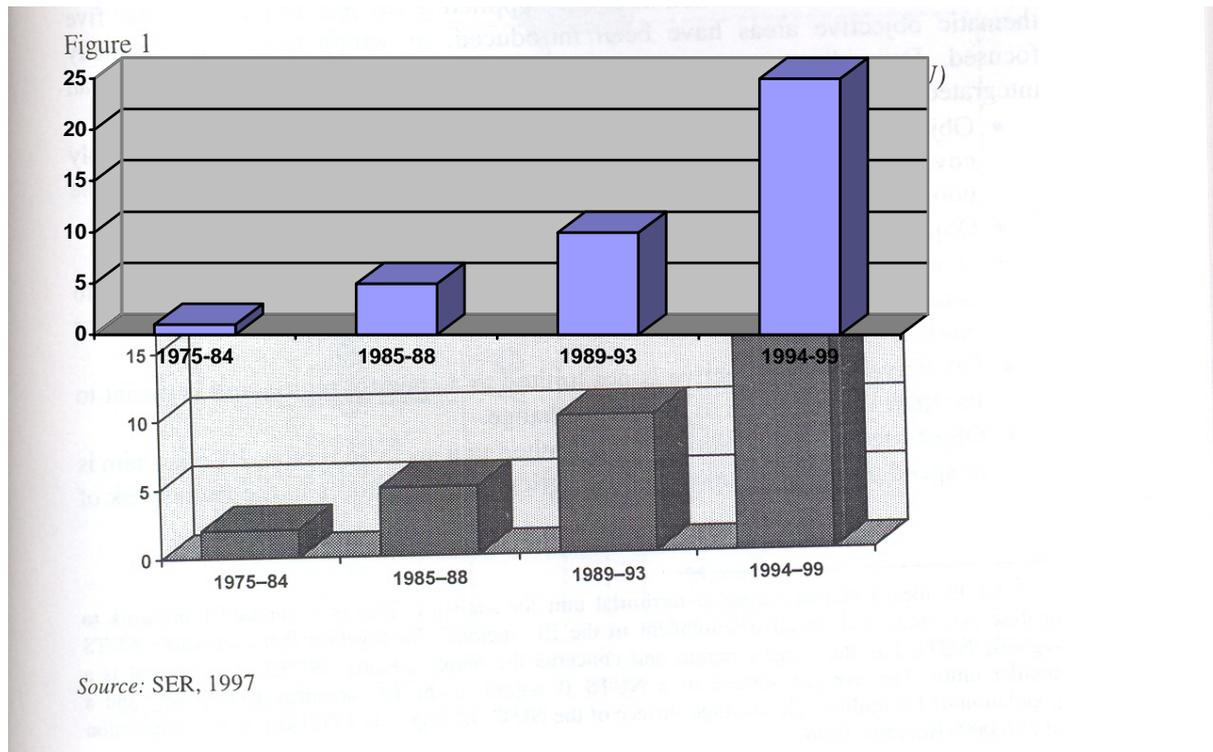
The ERDF is by far the most important instrument of the Structural Funds in financial terms. *Table 1* shows the division of funds during the programming period 1994-1999.

**Table 1 Volume of the different Structural Funds in the programming period 1994-99**

<b>Structural Funds</b>	<b>Volume</b>
European Regional Development Fund	76.478
European Social Fund	46.200
European Agricultural Guidance Fund	27.347
Financial Instrument of the Fisheries Guidance	4.481
<b>Total</b>	<b>154.505</b>

Source: Armstrong and Taylor, 1993, EC, 1996

In time, the funds have been subjected to several reforms caused by internal and external developments. Every enlargement of the Union coincided with changes in the general procedures of the EU, since it became more and more difficult to overview the implementation of the funds. In addition, the area covered by the Structural Funds grew considerably last years. *Figure 1* shows the increasing volume of the three Structural Funds in the period 1975-1999 (in billions of ECU)



## 2.2 Reforms of 1989

The most far reaching reforms have been introduced in 1989. In this period economic and social policy became a major policy issue of the EU; the size of the Structural Funds increased and therefore new regulations and principles were put forward to improve the efficiency of the Structural Funds (Wishlade, 1996). In this year the principles of the EU have been introduced. These principles are:

- Concentration
- Programming
- Partnership
- Additionality

These principles proved very successful and as a consequence have been applied ever since.

### *Concentration*

Concentration can be interpreted in two different ways; a geographical concentration and a thematic concentration. Concentration results in a more effective outcome since it avoids a splintered use of the funds and it guarantees a focus on the regions in greatest need.

Both forms of concentration have been applied in the EU. In the year 1989 five thematic objective areas have been introduced, of which three are regionally focused. Depending on the objective the different funds are directed in an integrated way to the specific region. The objectives are (EC, 1997):

- Objective 1; Nuts II<sup>1</sup> regions whose development is lagging behind. It only covers regions with a GDP lower than 75% of the EU average. These are the poorest regions of the EU.

<sup>1</sup> NUTS means Nomenclature of territorial unit for statistics. This is a standard framework to analyse economic and social development in the EU regions. All together there are three NUTS regions. NUTS I is the biggest region and concerns the whole country. NUTS II in general is a smaller unity. The average surface of a NUTS II region in the EU amounts 13,000 km<sup>2</sup> and a population of 1.9 million. The average surface of the NUTS III region is 2,000 km<sup>2</sup> with a population of 330,000 (Horvath, 1996).

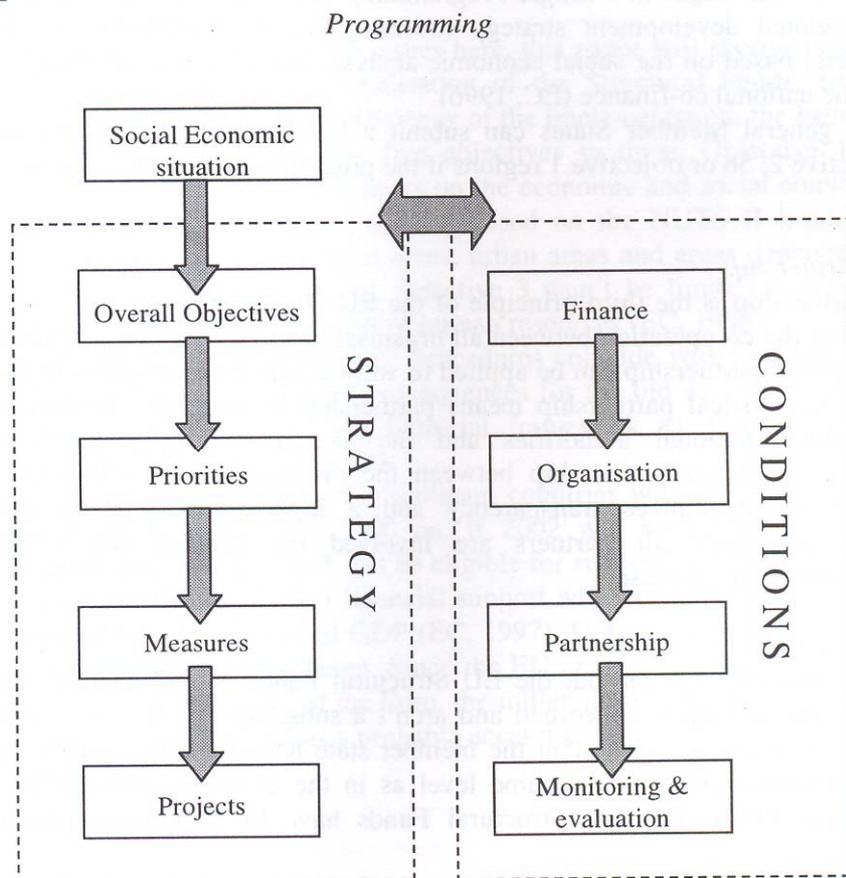
- Objective 2; NUTS III regions seriously effected by industrial decline.
- Objective 3; this objective is not limited to a specific region and is meant to combat long-term unemployment and to facilitate integration into the labour market.
- Objective 4; this objective is not limited to a specific region and is meant to facilitate the adoption to industrial change.
- Objective 5a; this objective is not limited to a specific region. Its main aim is to speed up the adjustments of the agricultural structures in the framework of the reform of the Common Agricultural Policy and promoting the modernisation of the reform of the Common Fisheries Policy.
- Objective 5b; this objective is based on the NUTS II regions and aims to facilitate the development and structural adjustment of rural areas.

The classification in Objective areas is based on objective criteria.

### Programming

Programming is the second principle, applied since 1989. Before this period the Structural Funds were mainly directed to projects. Programming makes an integrated focused approach possible and guarantees a relation between the projects carried out in the region. The interaction between the different elements integrated in a programme are shown by *Figure 2*.

Figure 2



Source: NEI, 1998

The EU works with a fixed procedure. This procedure exists of four stages (Marks, 1996):

Stage 1: The Member States develop and submit the National or Regional Development Plan to the EC. This programme contains a description of the social economic situation, the strategy and the proposed budget;

Stage 2: The plans form the basis for the negotiations between the Member State and the EC;

Stage 3: Based on the outcome of the negotiations, the EC drafts the Community Support Framework (CSF) in which the allocation of the Structural Support is defined<sup>2</sup>.

Stage 4: The implementation of the Operational Programmes as written down in the plan.

To facilitate programming, the EC introduced in 1993, a new measure which integrates the stages in 1 Single Programming Document. This document contains the regional development strategy (overall objective, priorities, measures and projects) based on the social economic analysis, the allocation of the EU support and the national co-finance (EC, 1996).

In general Member States can submit a Single Programming Document for Objective 2, 5b or objective 1 regions if the programme amounts less than 1 billion Euro.

### *Partnership*

Partnership is the third principle of the EU. As its name suggests, partnership refers to the co-operation between all organisations involved in a programme. The principle of partnership can be applied to vertical relations as well as to horizontal relations. Vertical partnership means partnership between the involved regional authorities, national authorities and the European Commission. Horizontal partnership means partnership between the involved actors within the region. Partnership guarantees transparency and a high involvement of all actors concerned. Since all partners are involved the chances for a successful implementation increase.

### *Additionality*

Additionality means that the EU Structural Funds should have an additional impact on the region concerned and aren't a substitute for the national regional policy. Concrete it means that the member state has to keep its public structural expenditures at least at the same level as in the previous programming period (Higgins, 1998). The EU Structural Funds have to complement the national regional expenditures. National funds can be used as a tool for the co-finance of the programme. Every Euro aid of the Structural Funds has to be supplemented by own finance. The height of the co-finance depends on the nature of the fund and varies from 30% to 50%.

## **2.3 Agenda 2000**

A new important change with regard to the implementation of the Structural Funds is about to come with a new enlargement of the EU in prospective. In July 1997 the European Commission launched agenda 2000. This document discusses three major issues:

1. The reform of the existing EU policies;
2. The process of enlargement;
3. The financial framework.

Since it goes too far to discuss all issues here, this paper will shortly highlight the major consequences for the organisation of the Structural Funds. Besides further decentralisation and greater efficiency of the implementation, the European Commission proposes to reduce the five objectives to three.

Objective 1 will remain unchanged. Objective II will focus on the economic and social conversion of regions in Structural Crisis and will be based on the NUTS II level. This objective covers industrial areas, rural areas, urban areas and areas dependent on fisheries. Unlike the other objectives, objective 3 won't be limited to a special region and focuses on the development of human resources (EC, 1998).

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<sup>2</sup> A CSF is based on the programming region and contains a detailed description how the aims of the regional plan will be achieved by integrating the four Structural Funds, the Cohesion Fund and the loans of the EIB.

The change of the Structural Funds' procedures coincide with changes in the financial framework. This will have consequences for the old as well as the new member states. *Figure 3* shows the financial framework as proposed by the European Commission in Agenda 2000.

**Table 2 The financial framework for the Structural and Cohesion Policy in the budget period 2000-2006 (in billions of ECU, prices of 1997)**

	1999	2000	2001	2002	2003	2004	2005	2006
<b>15 present member states:</b>								
Structural Funds	31.4	31.3	32.1	31.3	30.3	29.2	28.2	27.3
Cohesion Fund	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
<b>New Member States:</b>								
Structural Funds & Cohesion Fund		-	-	3.6	5.6	7.6	9.6	11.6
Pre-accession Fund		1.0	1.0	1.0	1.0	1.0	1.0	1.0
<b>Total</b>	<b>34.3</b>	<b>35.2</b>	<b>36.0</b>	<b>38.8</b>	<b>1.0</b>	<b>40.7</b>	<b>41.7</b>	<b>42.8</b>

Source: EC, 1997

As can be seen from the table the applicant countries will receive 1.0 billion pre-accession aid from the year 2000 on. If 2002 will be the first round of accession, the countries concerned will be eligible for support. Because absorption problems are expected, the annual financial support will increase gradually to the general limit of 4% of the national GDP (EC, 1997). Unfortunately the year 2002 seems not feasible for the time being. Since the EU faces many challenges in the years to come (the introduction of the Euro, the millennium problem) it is not very rational to expect the year 2002 as a probable accession date.

#### 2.4 Enlargement of the EU

In most of the countries in Central and Eastern Europe EU accession has priority number 1. Joining the European Union of course involves some important political and economic advantages. The Structural Funds are one of these major advantages. Although the pre-accession countries already received some support from PHARE, the amount of support after accession will increase considerably. In order to be able to absorb this huge amount of support, the countries have to be able to meet several requirements put forward by the European Commission. These requirements are:

- Decentralisation of regional policy;
- The NUTS II level has to be established as a basis for the implementation and the monitoring of the Operational Programmes;
- The New Member States have to become familiar with the four basic principles of the EU Structural Funds.

#### 2.5 Summary

The Structural Funds are the main instruments to reduce inequality among the member states of the European Union. During the years, the Structural Funds have been subjected to several changes. The most important changes took place in 1989, the year that the principles of concentration, programming, partnership and additionality have been introduced. These principles have to guarantee a coherent policy characterised by a focused and effective approach. With a new enlargement ahead, the new programming period, that starts from the year 2000, will be characterised by new changes as laid down in Agenda 2000. Besides increasing decentralisation and a greater efficiency of the implementation of the Structural Funds, the five objectives will be reduced to three.

In order to be able to absorb the Structural Funds, the countries in Central and Eastern Europe have to fulfil three requirements. These requirements are:

- Decentralisation of regional policy;
- Establishment of the NUTS II level as a basis for the implementation of the operational programmes;
- Implementation of the principles of the Structural Funds.

### 3. The situation in Hungary

In 1996, Hungary made an important step forward by adopting an Act on Regional Policy and Physical Planning. It was the first country in Central and Eastern Europe which adopted an Act, that lays down the main tasks and authorities of the different institutions in regional policy. This chapter will summarise the main consequences of the Act. Herewith this chapter will function as a framework, to understand the case study of Baranya and Szabolcs-Számár-Bereg to its full extent. Three aspects will be highlighted; the institutional structure, the macro region and regional policy.

#### 3.1 The Institutional Structure with regard to regional policy

Two major stages can be envisaged with regard to regional policy in the post communist period. The first period starts directly after 1989. As a reaction to the communist period the institutional structure in Hungary changed severely. The most important changes in the institutional structure were:

- The hierarchical structure was replaced by a structure in which there was no hierarchy between local governments of different size and the county self-government. With the introduction of the Act on Local Government in 1990, the function of the county self-government was reduced to carry out those tasks, which the local authorities weren't able to do or weren't willing to do.
- In 1990, for the first time a Ministry of Environment and Regional Policy was established. However until 1996 its tasks weren't defined.

The second stage was characterised by the introduction of the Act on Regional Policy and Physical Planning of 1996. The major strength of this Act, is that it formally lays down the tasks and authorities of the different actors in regional policy. In addition, the act caused the establishment of a new institutional structure responsible for regional policy. *Figure 3* shows the different institutions responsible for regional policy after 1996.

The following additional institutional bodies have been set up in the field of regional policy besides the traditional institutional structure:

- The National Regional Development Council (NRDC);
- The Hungarian Regional Development Centre (HRDC);
- The Regional Development Council (RDC)
- The Regional Development Agency (RDA)<sup>3</sup>;
- County Development Council (CDC);
- The County Development Agency (CDA);
- The Regional Development Association of Local Governments (RDALG).

The new institutional structural differs from the traditional one in that is not a politically elected body but a multiform body in which various local actors are involved. All the councils at the different levels contain representatives of the political sector (ministries, local governments), the economic sector (national or regional chamber of commerce), the employers and employees side.

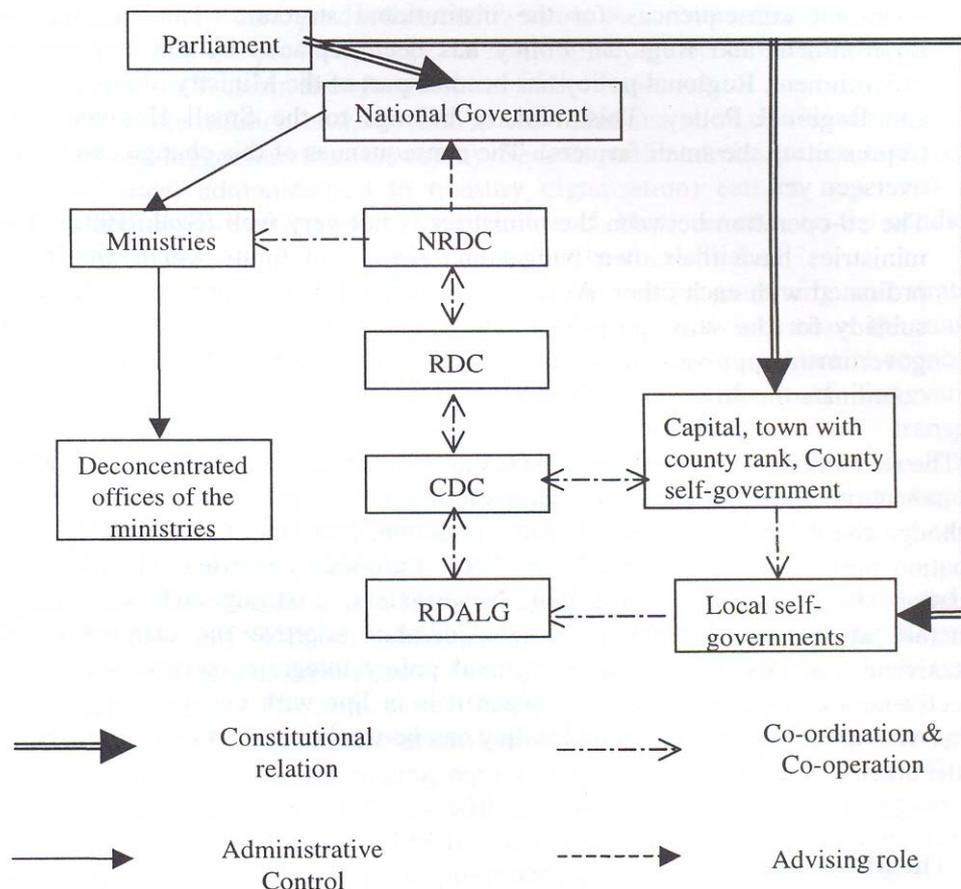
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<sup>3</sup> This body has not been established yet in most regions.

**Figure 3 The institutional structure with regard to regional policy after 1996**

Figure 3

*The institutional structure with regard to regional policy after 1996*



Bron: Rave, de Jong, 1998

Unfortunately there is no system without shortcomings. Most shortcomings arrive from a lack of tradition and experience. The shortcomings at the county level will be analysed in more detail in chapter 4. At this stage only a few remarks will be made about the problems at the national level. The main problems are:

- The ministry of Environment and Regional Policy has no tradition, and as a result it appears to be very difficult to function as a co-ordinating ministry between the other ministries. The minister of regional policy is formally the chairman of the NRDC. This is at the same time the weakness of the NRDC. It would be stronger if it was chaired by a older ministry such as the ministry of finance or the Prime minister (Horváth, 1997). Since the election in May 1998 the national government has changed however. This had several important consequences for the institutional structure. The Ministry of Environment and Regional Policy has been replaced by the Ministry of Environment. Regional policy has become part of the Ministry of Agriculture and Regional Policy. This ministry belongs to the Small Holders Party (representing the small farmers). The consequences of this change can not be overseen yet.

- The co-operation between the ministries is not very well (Szaló,1997). The ministries have their own budget and their own funds which aren't co-ordinated with each other. As a result it is possible for applicants to receive subsidy for the same project at different ministries. Recently the national government approved the situation by introducing degree 263 which aims to coordinate the different funds.

The remarks made above have to be taken with a pinch of salt however. It gives an indication about the main weaknesses of the system at the national level. Although these weaknesses should have attention, one has to be aware that the situation isn't much better in a lot of West European countries. Therefore the situation should not be exaggerated. Nevertheless, a strong and co-operative structure at the national level can considerably improve the efficiency and effectiveness of any policy. Since regional policy integrates several sectors its effectiveness considerably increases when it is in line with the sectoral policies. Otherwise the effect of the regional policy can be weakened by the sectoral policy or the other way around.

### **3.2 The Macro-region**

The establishment of a the NUTS II level is one of the requirements of the EU regional policy. Unfortunately the county appears too small as a NUTS II region and therefore the EU required the establishment of a new territorial unit in Hungary. Besides the fact that it is an EU requirement, the macro region has several advantages above the county (Horváth, June 1997 & Horváth, September):

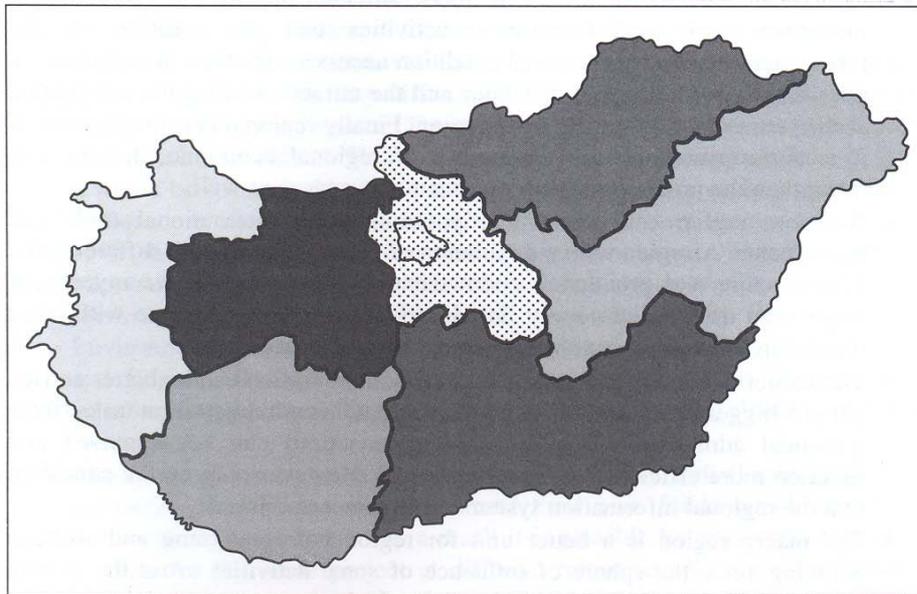
- The macro region as a unit is more suitable for spatial spreading of innovative and market conform activities and the creation of the infrastructure and organisational condition necessary for that. In addition, the possibilities for a division of labour and the attraction of capital are limited at the county level or in the small region. Finally regional decentralisation, if it is accompanied by the appearance of regional economic clusters, can strengthen the inner cohesion of the economic spaces as well;
- A macro region can offer more possibilities to international trade and investments. A region with a population of 1-1,5 million, with differentiated infrastructure and production endowments is a more attractive investment target than the present county. In addition, it is able to compete with other regions in Western Europe which are of the same size.
- The modernisation of the system of state administration can be better carried out at a bigger unit than the county. Several public administration tasks (from statistical administration to treasury organisation) can be organised and function more efficiently at a regional level. However only on the condition that the regional information systems have been established.
- The macro region is a better unit for regional programming and strategy planning since the sphere of influence of some activities cross the county border. Examples are regional planning which concern territorial economic clusters and networks, business services, R&D and innovation, environmental development, regional communication and transport networks, territorial cohesion, etc. In addition the principles of the EU as written down in the regional development concept (programming, concentration, subsidiarity) can only be asserted to a rather limited extent within the present framework of the county.

The Act of 1996 created two kinds of regions; the programming region and the Statistical Region (NUTS II). Although the tasks and authorities of the Regional Development Councils have already been laid down, in practice these bodies have been established yet. The same is true for the Regional Development Agency.

According to the act the institutional structure, at the level of the macro region, will be based on the programming region instead of the NUTS II level. This is strange since the Structural Funds will be directed to the NUTS II regions. In addition, the NUTS II level will be the statistical unit, which is necessary for the monitoring and evaluation of the programmes. Monitoring will be much more difficult if the programme is based on a different region. Nevertheless, the programming region and the NUTS II region do not differ very much presently. The only difference is, that NUTS II region 4 and 5 in *Figure 4* are amalgamated into one programming region.

Figure 4

*The Nuts II regions in Hungary*



Key: 1 – Western-Transdanubia, 2 – Central-Transdanubia, 3 – Central-Hungary,  
4 – Northern-Hungary, 5 – Northern-Plain, 6 – Southern-Plain, 7 – Southern-Transdanubia  
Source: National Regional Development Concept, 1997

### 3.3 Regional Policy in Hungary

#### 3.3.1 *The theory applied to Hungary*

As remarked in §2.4 the European Commission stimulates a decentralised regional policy. However this does not imply that the role of the national government is diminished to zero. The major role of the National Government is to determine the general guidelines. All the programmes and policies at the different levels should fit within this framework and should be tested accordingly.

When applying this model to the Hungarian situation, the CDC should develop the regional development strategy based on the proposals submitted by the local authorities, while keeping in mind the national guidelines. The county strategies should form the basis for the regional development strategy and programme. This programme will be submitted to the responsible ministry. This ministry will co-ordinate the regional programmes with the sectoral programmes of the other ministries.

Furthermore, it has to guarantee that the regional programmes are compatible with the overall macro-economic objectives. It will be clear that this ministry therefore has an important co-ordinating role.

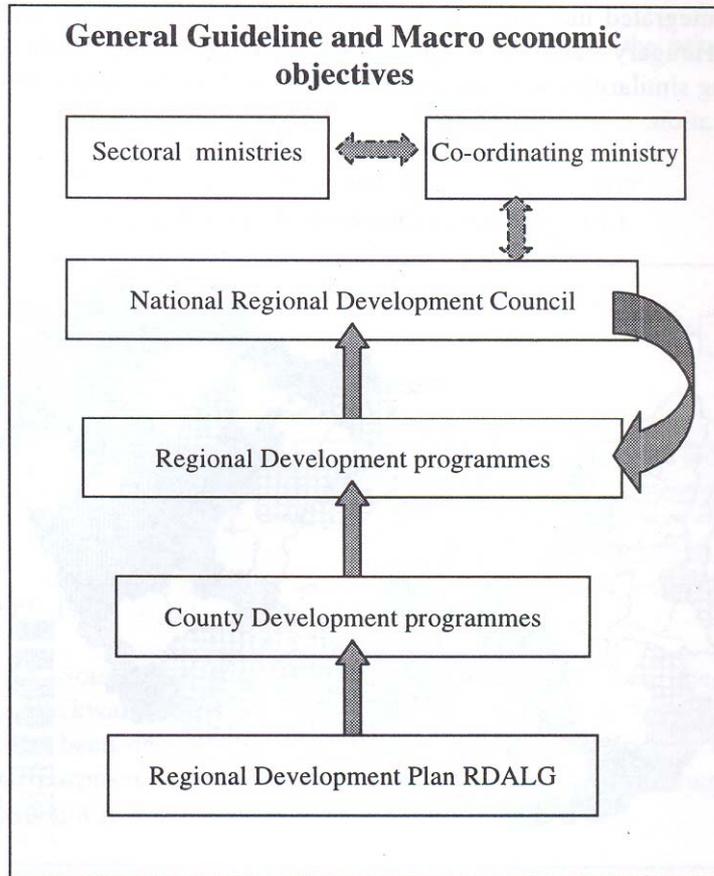
The ministry should submit the proposal to the NRDC. The NRDC will evaluate the proposal and will submit it to the parliament. After approval by the parliament, the funds can be divided in an integrated way to the various regional and sectoral programmes (Planet S.A., 1994).

This system is visualised by *Figure 5*.

Of course this is a very ideal situation and it will be hard if not impossible to find a country which perfectly fits within this model. Nevertheless the model shows the importance of partnership and co-ordination.

Figure 5

*A model for regional policy in Hungary*



Source: *National Regional Development Concept, 1997*

### 3.3.2 National Policy

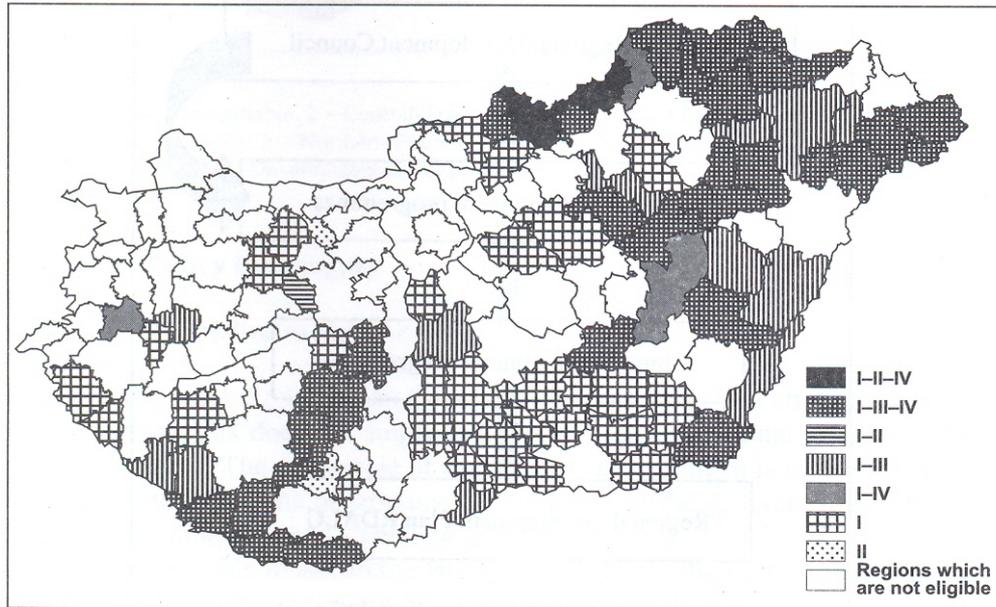
The National Regional Development Concept has already been elaborated. This document lays down the priorities and the strategy for sectoral and regional policy. Nevertheless no concrete actions have been defined yet in this document.

In this paper I won't go into details about the concept. Nevertheless some remarks are unavoidable. The concept has been elaborated in compliance with the EU recommendations. This means that all the principles of the EU Structural Funds are integrated into the concept. In addition, the backward statistical small regions in Hungary have been classified in objective areas. This classification shows strong similarities with the current EU five Objective areas. *Figure 6* shows the classification.

On the contrary to the EU practice a small region can belong to more categories. Furthermore, only regions with a GDP lower than 75 % of the Hungarian average are taken into consideration, since these small regions are eligible for the Source for Regional Compensation. In the concept the priorities for the different objective areas are defined.

Figure 6

*Classification of Objective areas in Hungary*



Key: I – Regions backward from social economic point of view; II – Regions under industrial restructuring; III – Rural backward areas; IV – Regions with lasting unemployment

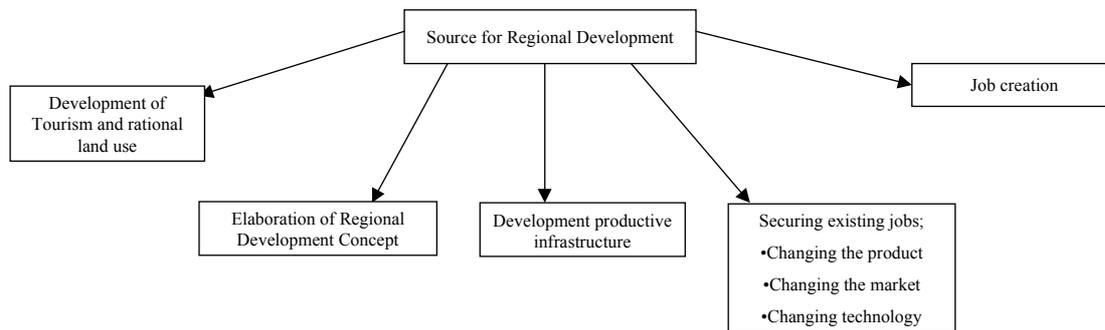
Source: National Regional Development Concept, 1997

3.3.3 Tools

Since 1996 the Source for Regional Development has been decentralised for 50% to the County Development Councils (CDC). The other 50% of the resource will be divided by the Ministry responsible for Regional Policy<sup>4</sup>. In 1996 the regional development support consisted of 9,6 milliard HUF (compared to 300 milliard HUF for the total state investment).

The regional development support can only be directed to the priorities set at the national level. *Figure 7* shows the different priorities.

**Figure 7** Priorities for the Regional Development Source



Source: MERP, 1997

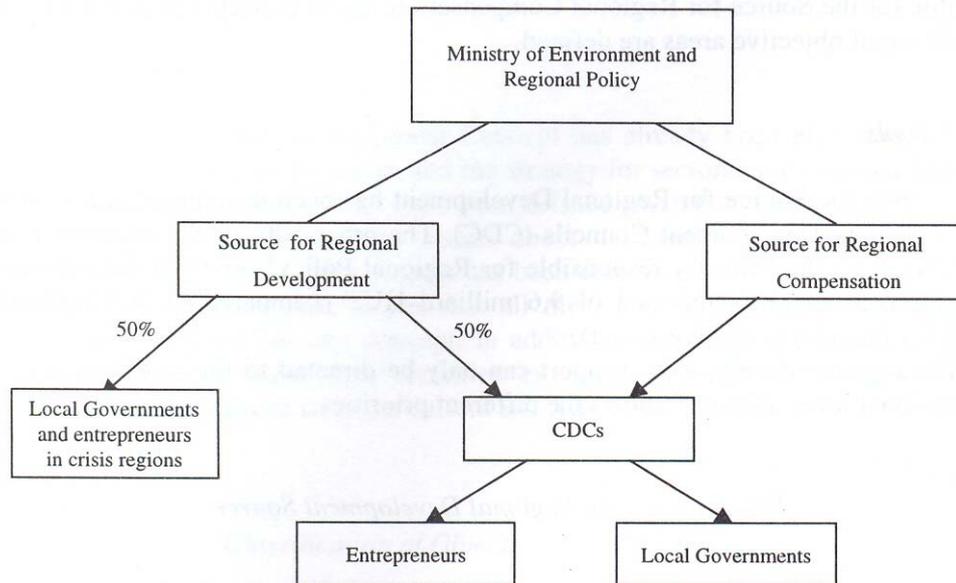
Besides the Source for Regional Development, there is a special source available for Backward small regions (GDP 75% below the National average). This source has been decentralised to the county level

<sup>4</sup> The Ministry of Environment and Regional Policy has been replaced in May 1996 by the Ministry of Agriculture and Regional Policy.

and can only be used for infrastructural purposes such as gas, electricity, sewage system, water pipelines etc. Its total amount is 5 milliard HUF.

Figure 8

*Division of resources for Regional Development*



Source: Ministry of Environment and Regional Policy, 1997

### 3.4 Summary

In this chapter three themes have been discussed; the institutional structure with regard to regional policy, the macro region and the national regional policy.

Hungary made a large step forward by the introducing of the Act on Regional Policy and Physical Planning of 1996. This act defined the tasks and authorities at the different institutional levels with regard to regional policy and physical planning. Furthermore, the act caused the establishment of a new institutional structure responsible for regional policy at all different administrative levels. These bodies are not politically elected and different regional actors are represented in it.

The Act also introduced the Macro region as a basis for regional development programmes. However it made the situation confusing by introducing not only the NUTS II level, but also programming regions. Since the NUTS II region is the statistical unit necessary for the monitoring and evaluation of the programmes, this seems to be the level for the regional programmes under the Structural Funds. Nevertheless in practice the programming region and the NUTS II region do not differ much.

The third theme concerns regional policy. The national regional development concept has already been elaborated. Although this concept lays down the general objective and the priorities for regional policy, no concrete actions have been defined yet.

There are two resources decentralised to the County Development Councils; the Source for Regional Development and the Source for Regional Compensation. The source for Regional Compensation should be directed to backward small regions. Both funds can only be allocated to the priorities fixed at the national level.

#### 4. Baranya and Szabolcs-Szatmar-Bereg as case studies

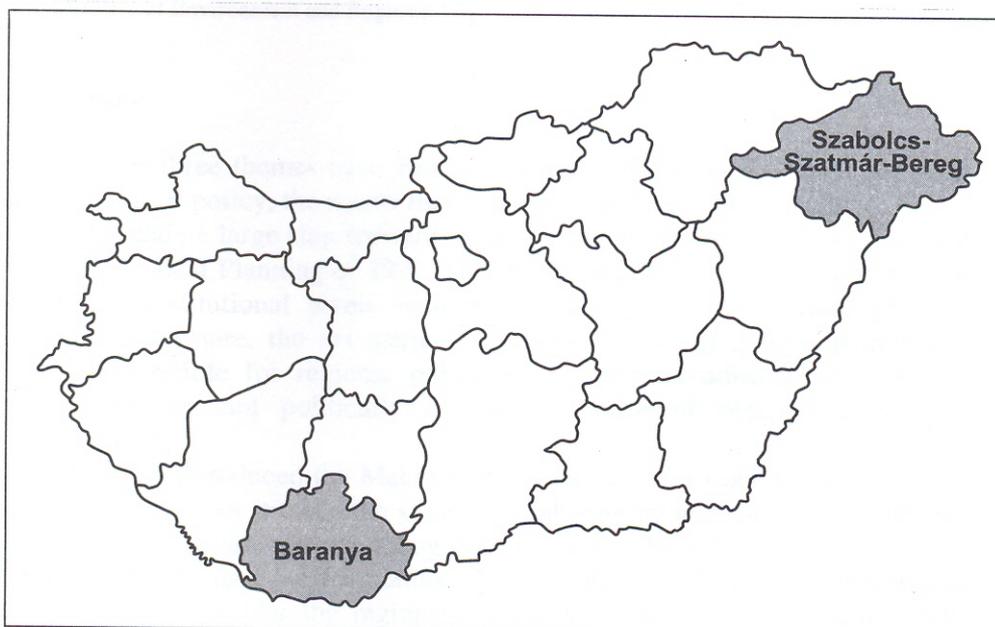
The following case study is based on interviews with different actors in regional policy in the two Hungarian counties Baranya and Szabolcs-Szatmar-Bereg. These interviews took place in the period from 22nd of April until the 21st of May in 1998. The aim of the interviews was to assess the problems with the implementation of the Act on Regional Policy and Physical Planning as a preparation for the EU Structural Funds. Therefore the requirements of the EU formed the basis for the interviews. In this chapter main the results of the interviews will be presented.

##### 4.1 Baranya & Szabolcs-Szatmár-Bereg: Two opposites?

Both counties Baranya and Szabolcs-Szatmár-Bereg are located in the extreme ends of the country. Baranya in the South neighbouring Croatia and Szabolcs-Szatmár-Bereg in the East neighbouring Slovakia, Ukraine and Romania. *Figure 9* shows both geographical locations.

Figure 9

*Baranya and Szabolcs-Szatmár-Bereg*



There are several reasons why these two counties were selected for interviews. These are:

- Both counties have experience with PHARE. The institutional structure established under the Phare programme of 1992 in Szabolcs-Szatmár-Bereg served as an example for the Act of 1996. Furthermore the Phare programme of 1996 in South Transdanubia (where Baranya is located) was the first programme that focused on the macro region.
- On the contrary to Borsod-Abaúj-Zemplén county (which was also involved in the first PHARE programme) Szabolcs-Szatmár-Bereg uses a bottom approach. In addition, Borsod-Abaúj-Zemplén is strongly dominated by the heavy industry which makes a comparison with Baranya less feasible.
- Through the years Szabolcs-Szatmár-Bereg has received much state support because it belonged to the poorest regions of the country. Baranya, on the opposite only received minor state support since it was characterised by average economic growth.
- Baranya is characterised by a lot of dwarf villages. This overrepresentation of local self-governments can influence regional policy.

## 4.2 The implementation of the act of 1996

During this paragraph the results of the interviews will be presented. The list of interviewees has been included in the bibliography. The major implications and also the successes will be discussed along the lines of the requirements of the EU. However, first attention will be paid to the present institutional structure and its major implications. This is important since the institutional structure forms the basis for the implementation of any policy.

### 4.2.1 The major implication with the institutional structure at county level

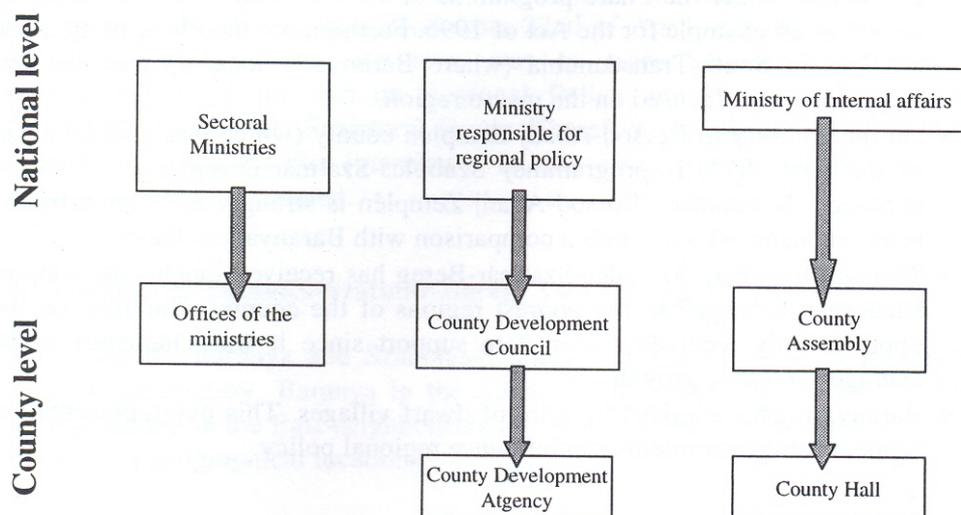
The Hungarian institutional structure is complicated since a lot of institutions are directly or indirectly involved in regional policy at county level. These institutions are:

1. County Development Council;
2. County Development Agency;
3. County Assembly;
4. County Hall;
5. Offices of the Ministries.

The relation between the different bodies is visualised by *Figure 10*

Figure 10

*The different bodies in regional policy at the county level*



The County Development Agency (CDA) and the County Hall are the executive bodies of respectively the CDC and the County Assembly. The County Assembly is a very old political body, while the CDC has been established in 1996. The CDC is a multi-form body existing of representatives of the ministry responsible for regional policy, the statistical small regions (mayors)<sup>5</sup>, representatives of the chambers

<sup>5</sup> The small regions are a statistical entity and in most case not similar to the RDALG. The RDALG cover a smaller area and are the basis for programming on the local level. As a result not every RDALG is represented in the CDC. Nevertheless the present situation is more desirable, because a representation of the RDALG in the CDC would cause an overrepresentation of local governments.

of commerce (Industry, Handicraft and Agriculture<sup>6</sup>), the labour council and the mayor of the city with county status.

During the interviews the division of tasks between the CDC and the County Assembly with regard to regional policy appeared to be unclear. *Table 3* shows the divisions of tasks between the CDC and the County Assembly according to the Act of 1996.

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<sup>6</sup>The absence of a direct representative of the business sector in the CDC or in the Regional Development Association of Local Governments caused some criticism. The Chambers of Commerce are administrative bodies and are not fully aware of the needs of the business sector according to some interviewees. Therefore the business sector should be directly represented in the CDC or indirectly via the RDALG.

**Table 3 Tasks of the CDC and County Assembly compared**

CDC	County Assembly
<ul style="list-style-type: none"><li>• Elaborates and approves the county development concept and programmes;</li><li>• Can elaborate specific duties outside the county border in compliance with the other county;</li><li>• Decides about the budget allocation of the decentralised sources for regional development according to the programme.</li></ul>	<ul style="list-style-type: none"><li>• Elaborates the physical plan for the county;</li><li>• Co-ordinates the physical plans of the local governments;</li><li>• Co-ordinates the regional development activities of the settlements;</li><li>• Co-ordinates own compulsory tasks related to public institutions at the county level;</li><li>• Co-operates with City with county Status.</li></ul>

Source: Act on Regional Policy and Physical Planning

Although the Act laid down the tasks of the two bodies, the practice differs somewhat. Two points are worth mentioning here. First, according to the Act, the County Assembly is responsible for the co-ordination between local development activities. In practice, however this is very difficult since the County Assembly has legally no power over the local authorities. Therefore it is very hard for the County Assembly to stimulate the local governments to work together. On the contrary, this will be easier for the CDC since all local governments are represented in this body and are directly involved in the decision-making process about the programme. It isn't surprising therefore that the co-ordination in practice takes place in the CDC.

A second point of the discussion during the interviews formed the budget allocation. Some interviewees mentioned that this decision should be made by a political body as the County Assembly. Others however argued that a professional approach was of more importance and therefore the CDC, with the aid of the CDA, should decide.

The function and the existence of the County Development Agency (CDA) resulted in less discussions than the CDC. In Szabolcs-Szatmár-Bereg, the CDA has already been established at the end of 1993. In Baranya the CDA didn't exist at that time and most of the administrative tasks were carried out by the county hall<sup>7</sup>. The elaboration of the Regional Development Concept in Baranya has therefore been sourced out completely. Besides the elaboration of the Regional Development Concept and the administrative tasks, the agency in Szabolcs-Szatmár-Bereg is responsible for networking, promotion of the county and attracting inward investment (NEI, 1996). The interviewees in Szabolcs-Szatmár-Bereg are convinced of the need of the agency. To their opinion the agency is a neutral body where professionalism dominates. Furthermore the agency forms a direct contact point for the project promoters, who should be supported during the realisation of the programme. On the contrary, the county hall is an administrative unit and not specialised in regional development. As a result the strategic tasks are sourced out to consultants. The implementation of the programme can be obstructed in this case by a lack of knowledge and time necessary for the most optimal and effective results.

The last point of discussion with regard to the institutional structure at the county level form the offices of the ministries. The offices of the ministries were created as a reaction on the Act of Local governments of 1990, which hugely diminished the hierarchical power of the County Self Government. Part of the former tasks of the county were transferred to the local governments, but even more important, some of the tasks went to the newly created offices of the ministries. The ministries were free to set up these offices, since they could always argue that they wanted to avoid a hierarchical situation in which the county self-governments had power over the local self-governments (Pálné Kovács, 1997). Paradoxically the new situation therefore led to deconcentration instead of decentralisation. Especially in Szabolcs-Szatmár-Bereg the presence of these offices caused problems. The offices are always sectoral oriented and there is no co-ordination between the policy of the office

<sup>7</sup> Presently the CDA has been established in Baranya as well.

and the CDC. For example the ministry of Agriculture has its own office in Szabolcs-Szatmár-Bereg and has its own agricultural programme. The largest part of the budget of the Ministry of Agriculture goes to its own office and only a small part is decentralised to the CDC. This makes an integrated approach very difficult.

### *Conclusion*

At the county level a lot of institutions are involved in regional policy. There is a political body, the assembly; a deconcentrated body, the offices of the ministry; and a professional body, the county development council. The Act of 1996 is not clear about the division of tasks and the coordination between the tasks. Furthermore some tasks legally are the responsibility of the Assembly, but logically should be carried out by the CDC. For example the Assembly is not able to coordinate the regional development programmes of local governments since the lack of hierarchy among them. The need of an independent professional body for the implementation of the regional development programmes has been recognized by all actors. Besides the implementation of the programme this body can promote the county as an investment target, lobby at the national level and function as a contact point for questions about the regional programme.

#### *4.2.2 Decentralisation*

The first requirement of the EU is decentralisation. However in the case of Hungary it is better not to speak of decentralisation but of subsidiarity. Subsidiarity means that decisions should be taken at the same level as where problems occur. The Act on Local Governments of 1990 created a contradiction in Hungary; On the one hand, it decentralised some tasks to the local governments, on the other hand, it concentrated other tasks of the former county councils to the central level.

Most interviewees consider the Hungarian system still very centralised, and more deconcentrated than decentralised in practice. One interview stated that when the central government started to speak about decentralisation, the ministries opened offices out of fear to lose power. Since Hungary is a diversified country, most interviewees feared the Irish system where the decisions about the budget allocation takes place at the national level.

The strong centralisation of most funds at the different ministries can lead to hilarity as well. A good example in this respect formed the sewage system between Szászvár and Magyareghegy in Baranya. Both villages applied at the national level for the building of a sewage system and both applications were awarded. When they got the money they realised that both applications were for the same pipeline since it were neighbouring villages. Furthermore, since there are so many local governments in Hungary, the ministries do not have a good overview of all applications. As a result it is possible that one project in a village is awarded by two ministries without knowing it from each other. Although the coordination between the ministries improves by the new Decree (263/1997), it is still difficult to oversee the situation from the national level.

Most interviewees concluded that the priorities for regional development should be determined at the county level. Presently the CDC decides about the priorities of the county development programme. However they cannot realise these priorities since the decentralised funds can only be directed to the priorities determined at the national level. This severely obstructs the realisation of the programme. Therefore there should be more clarity about the general guidelines put forward at the national level, which serves as a framework for the programmes at the county level. Furthermore programmes developed at the county level should serve as input for the national regional development strategy. Presently this mutual co-ordination is missing.

However the results of the Act on Local Governments also shows the other side of the coin, what happens when decentralisation has been pushed too far. Since the introduction of this act, local governments took over a lot of tasks formerly carried out by the County Council. Since that period the number of local governments doubled from 1,600 Soviet councils to 3,200 local self-governments (Pálné Kovács, 1997). A hierarchical system between villages, towns or cities is absent. Especially in Baranya the results of the Act are very visible. In this county exist a lot of dwarf villages (some have no more than 300 residents). These villages all have their own public institutions (such as schools). Logically, some of these institutions could serve a much greater area. In addition, some of these small

local governments are hardly able to finance their public services, which can have an effect on the quality as well.

From the interviews appeared that there is no clarity yet about the subsidiarity principle. In most cases it is interpreted as decentralisation. A typical example forms road no. 6. There are recent plans to widen this road and to extend it from Budapest to the Croatian border. The discussion about this road caused a lot of problems. All the mayors interviewed had the opinion that the road should go along his/her village, since that direction should have the best results for the county. This example shows that such a decision about a national road should not be taken at the local level but at national level and regional level.

### *Conclusion*

Instead of decentralization it is better to speak of subsidiarity. In Hungary exists the strange situation that since the Act on Local governments the position of the National Government and the Local Governments became stronger at the cost of the County. As a result Hungary lacks an intermediate level.

The result of this situation is that some decisions are presently taken at the local level or at the national level, which should be taken at the county level or the regional level according to the subsidiarity principle.

In addition, the implementation of the programme is hindered by the strong position of the local governments, which can result in settlement development instead of regional development. Furthermore it is also hindered by the strong position of the national government, which doesn't always coordinate its policy with the county level and is not used to take a regional point view.

### 4.2.3 The Macro-Region

The creation of the macro region is an interesting subject. Of course the macro region has certain advantages compared to the county level. A macro region has more lobbying power at the national level and at the European level. Furthermore, a region can identify itself better and as a result can attract more inward investments. Finally certain services can easily serve a greater area than the county and therefore can achieve economies of scale.

However in practice it is very difficult to integrate three counties, with their own very old cultural identity, into one region. The counties in Hungary have an old tradition and as a result the whole institutional structure is based on the county level. Furthermore the residents identify themselves with the county and not with a bigger region. During the interviews the strong identity of the counties became very obvious. Typically almost no one agreed about the composition of the regions and different interviewees used different criteria for the formation of the region.

Nevertheless it appeared that the interviewees in Baranya better understood the use of programming at the regional level than in Szabolcs-Szatmár-Bereg. In this last county almost the only reason mentioned for the creation of the macro region was because the Structural Funds were based on this level. One of the reasons for this difference in mentality is that the people in Baranya are better informed. The Phare programme of 1996 was based in South Transdanubia (among others Baranya is located in this region). Furthermore, the publications of the Centre for Regional Studies and the influence of the faculty of Spatial Science of the University of Pecs make residents in Baranya more conscious.

Finally, another reason for the difference is that the Northern programming region is much too big. It contains six counties with very different regional structures. As a result it is hard to find consensus within the region.

Because of the absence of the regional identity, the cooperation between the counties appears very difficult. In Baranya it was mentioned that cooperation is only possible at the highest level. However there is still no consensus about the location of the Regional Development Agency (RDA). According to the interviewees the following conditions should be fulfilled in order to have a well functioning regional level:

- The mentality of the people should change. They have to get used to think in a regional context;
- All counties should benefit from the cooperation;
- The region should be created voluntary;
- A professional body should be established responsible for the implementation of the programme.

The present system, in which the NUTS II level has been formed at the national level and the programming region has been created voluntary, is not desirable. The Structural Funds will be directed to the NUTS II regions and therefore the programmes should be based on this region as well. It is not advisable to create two kinds of regions, since it makes the system intransparent and confusing. Furthermore the monitoring system should be based on the programming region as well.

### *Conclusion*

From the points made above it seems wise to distribute the funds based on programmes at the regional level and not based on statistical indicators. The advantages are manifold:

- It prevents the funds to be divided proportionally between the counties regardless of the programme;
- Since the absence of a regional identity it is the best way to stimulate the counties to direct the funds to the priorities mentioned in the programme;
- It stimulates the creation of a regional identity, since the counties have to cooperate in the region;
- National funds are directed based on the quality of the programme. This stimulates regions to elaborate good quality programmes;
- It strengthens the role of the RDA in the implementation of the programme as an independent professional organisation.
- Since it takes some time to strengthen the commitment between the counties, it is wise to slowly reduce the role of the national government in the programme. During the first programmes it can have a supervising role during the whole process (from the definition of the objectives and the strategy to the approval of the projects) to ensure the quality and to make sure that the programmes are in accordance with the national guidelines. Later on its role can be reduced to monitor whether the priorities are in accordance with the national guidelines. The same is true for the requirements with regard to the programmes. At first the national government can decide to approve all the programmes in order to ensure the commitment between the counties. Later on it can slowly strengthen its requirements with regard to the quality of the programmes.
- However in every stage there must be a bottom-up approach, which means that regional actors decide about the objectives and the strategy. The role of the national governments is only to ensure that the objectives and the strategy are in line with the national guidelines and the required quality standards.

#### *4.2.4 The implementation of the principles of the EU Structural Funds*

The principals of the EU Structural Funds are very much interwoven with each other. The main problems with the implementation of the principles are explained by different tables.

### **Concentration**

	<b>Concentration</b>
National level	<p><b>Geographical concentration:</b> 50% of the national source for regional development is concentrated on the poorest regions. The other 50% is decentralised since 1996.</p> <p><b>Thematic concentration:</b> The former Ministry of Environment and Regional Policy defined five objectives for which the decentralised regional development support may be used.</p>

County level	<p><b>Geographical concentration:</b> In Baranya and Szabolcs-Szatmár-Bereg geographical concentration appeared difficult. The source for regional compensation is divided evenly between the eligible small areas. The small regions not eligible for the source for Regional Compensation mostly received support from the Source for Regional Development. Within the statistical small regions the money is divided between the associations of local governments. One mayor in Szabolcs-Szatmár-Bereg mentioned that he had to share the money within the small region with five other associations, with all different priorities. As a result the money was splintered in very small parts without any focus.</p> <p>In Szabolcs-Szatmár-Bereg it was also mentioned that concentration on the poorest small regions appeared very difficult since, especially in these regions, people didn't know how to elaborate good project proposals. For the realisation of the programme it is very important that associations of local governments learn how to elaborate and implement good project proposals. Training in the field of project management and the use of logframe method is desirable.</p> <p><b>Thematic concentration:</b> It appeared difficult to concentrate the source for regional development on the priorities and measures mentioned in the regional development concept. The main reason for this was that some of the priorities and the associated measures weren't in line with the objectives of the Source for Regional Development of the former Ministry of Environment and Regional Policy. As a result they could not use this money for the realisation of all priorities. Furthermore there was too little money at the county level to realise all the priorities mentioned in the programme. This makes it even more necessary to focus on not too many priorities in order to avoid splintering.</p>
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## Programming

	Programming
National level	At the national level the National Regional Development Concept has been elaborated. In this concept the priorities for regional development have been defined. However there are no concrete actions mentioned in the concept. There is no clear link yet between the national concept and the regional (here interpreted as the county) programmes.
Region	There are almost no regional programmes yet. The main problem is that there are no sources available for the regional level. South Transdanubia has elaborated a regional development concept under the Phare programme of 1996.
County	Every county has elaborated a regional development concept. This concept sets out the county development strategy (objectives, priorities and measures) based on a SWOT analysis. The implementation of the programme was hindered by the following factors: <ul style="list-style-type: none"> <li><input type="checkbox"/> The CDC can only guarantee money until two years. When a project is spread over more than two years, there is no guarantee for the other years;</li> <li><input type="checkbox"/> The CDC was late informed about the money available for the next year;</li> <li><input type="checkbox"/> The money wasn't focused on the priorities mentioned in the programme for the reasons mentioned under concentration principle.</li> </ul>

## Partnership

	<b>Partnership</b>
National level	<p><b>Horizontal:</b> The co-operation between the ministries is not very good. Since the former Ministry of Environment and Regional Policy had no tradition, it appeared difficult to co-ordinate the sectoral policies.</p> <p><b>Vertical:</b> The co-operation between the ministries and the County Development Council depends strongly on personal contacts. In general the CDC felt a distance between the county and the ministries. According to interviewees from Szabolcs-Szatmár-Bereg, the County Development Agency can have an important role in filling this gap as lobbying body at the national level and for the promotion of the county in general.</p>
Region	<p>The co-operation between counties within the region is still very difficult, mainly because there is no tradition in partnership. This principal will therefore need some time to develop.</p> <p>Since the sectoral ministries are represented in the Regional Development Council, some interviewees mentioned that the co-operation between the ministries may be possible at the regional level. Something which is not possible at the national level.</p>
County	<p>Partnership at the county level appears very bad. There is a lot of mistrust between the different organisation at the county level and between local governments. The bad co-operation appeared from the following:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> The CDC and the County Assembly didn't co-ordinate their activities. As a result the physical plan and the approved projects could be controversial;</li> <li><input type="checkbox"/> There was no co-ordination between the city with county status and the County Assembly (the city with county status is not represented in this body);</li> <li><input type="checkbox"/> There was no good co-ordination between the activities of the offices of the ministry and the programme of the CDC;</li> <li><input type="checkbox"/> The bad co-operation between local governments resulted in settlement development instead of regional development.</li> </ul> <p>Partnership is something that has to grow. It can only be stimulated when local governments have to join forces in a project. The government already stimulates the creation of associations of local governments. Some money is only available for associations. This is very positive. However it is a pity that companies aren't able to join these associations.</p>

## Finance

	<b>(Co-)financing<sup>8</sup></b>
National	<p>There is no co-ordination between funds at the national level. The system however improved by degree 263/1997 which harmonises the application systems.</p> <p>It is still not clear how the ministries will co-finance the Structural Funds when Hungary enters the EU. The budgets of the different ministries are determined every year. Since the Structural Funds concerns a lot of money it will be difficult for a ministry to guarantee the co-finance for the whole programming period (7 years). The inability to co-finance the Structural Funds can reduce the <b>absorption capacity</b> of the country.</p>
Regional	<p>There is no financial support at the regional level for the moment. Therefore the CDC can only realise regional programmes by joining forces.</p> <p>It is not clear yet how the programmes at the regional level will be co-financed when eligible for the Structural Funds.</p>
County	<p>The local governments and the companies which make use of the regional development support have to co-finance part of the project costs themselves. Only the Small regions with a GDP less than 75% of the national average are excluded from co-finance.</p> <p>The main problem with the finance was that the resources decentralised to the county could be only used for the priorities set at the national level.</p>

<sup>8</sup> Instead of additionality we discussed the difficulties with the financial system in general, since additionality only counts when the programmes for the Structural Funds are elaborated.

## *Conclusion*

Although the CDC already started to apply the four principles, there still appears to be a lot of difficulties with the implementation in practice. The following actions can help to improve the implementation of the principles: The sources for regional development and the source for regional compensation should be decentralised based on the programme instead of statistical indicators. As a result the decentralised fund is more conditional and it can be monitored whether the funds are used for the realisation of the priorities;

The funds should be directed only to qualified project proposals which fit within the framework of the programme. All the requirements can be integrated in an application form. The County Development Agency can be responsible for the pre-selection of the projects;

The priorities should be more focused and there should be a better coordination between the national objectives of the decentralised sources and the priorities of the county programme;

Local governments should be learned to elaborate sophisticated project proposals in partnership. This improves the quality of the project and the success of the implementation and prevents a fragmentation of funds.

These measures seem very strict. However since there is only little experience at the county level in regional development the measures will improve the quality of the outcome.

## 5. Lessons to be learned from the Irish case

Ireland is often used as a successful example. The country envisaged a very high growth rate over the last decades. The reasons for this successful years are manifold, such as a high inflow of Foreign Direct Investments, favourable economic situation, etc. It is difficult to assess the influence of the Structural Funds in the high conjuncture of Ireland. Nevertheless since Ireland as a whole was objective 1, it got a lot of European support. Because Ireland is a very centralised state the national government decided to define the whole country as a NUTS II region. Partly this was also possible since Ireland is a very homogeneous country. However since the country didn't have a regional policy the effects of this choice implies that the support strongly focused on the wealthiest areas around Dublin. The favourable economic situation however also influenced the poorer regions positively and a result the whole country envisaged economic growth.

### 5.1 Hungary and Ireland compared

The situation in Hungary is quite different from Ireland. The country has a heterogeneous nature, which makes regional policy and a division in more programming regions necessary. Every region has its own specific problems which need a different approach. Furthermore the situation world wide is different from that a couple of years ago. Therefore this case study isn't meant to serve as an implementation model for Hungary. It will be analysed which factors in Ireland contributed to the success of the Structural Funds Programme. Furthermore it will also be analysed which factors were counterproductive. Hungary can learn from these factors and use this knowledge to improve its own system. Table 5.1 shows the situation in Ireland and Hungary with regard to regional policy and the associated institutional structure.

**Table 3**  
**Regional policy and its associated institutional structure**

	Ireland	Hungary
National policy	Strongly concentrated with deconcentrated implementation of sectoral policies	Still concentrated but with the improvement of the Act the government chose for a decentralised structure
Regional policy	Absent; only sectoral policy	Since 1990 the government chose to develop a regional policy. However since 1998 the Ministry of Environment and regional Policy has been abolished which can have negative influence on regional policy in general.
Cooperation at national level	Very good co-operation between the sectoral departments (= ministries)	Almost absent
Coordinating body at national level	The ministry of finance is responsible for the co-ordination. Since this department has a very strong but neutral position it is well able to co-ordinate the sectoral policies.	The National Regional Development Council has no tradition. It appears very difficult to co-ordinate the sectoral policies with the regional policy.
NUTS II level	In the present programming period only one NUTS II region (the whole country). This will change in the new programming period however.	Hungary is obliged to create several NUTS II regions. Recently 7 NUTS II regions have been created.
Implementation Operational Programmes	The responsibility of the deconcentrated bodies of the sectoral departments and the State sponsored bodies. Regional authorities and EU operational committees have no executive tasks. There is no commitment at the regional level.	Will be the responsibility of the RDA
Role of regional authorities and local	Nil. There is no body responsible for	Strong local governments and a

actors	regional policy. Shannon is an exception. The RDA of Shannon is famous example in Europe because of its success. Important factors for its success are: 1. Its integrated regional approach; 2. The good co-operation 3. The independence of the RDA 4. The size of the region	weak position of the county assembly. CDC is responsible for regional policy. There are no RDA's yet at the NUTS II level. Nevertheless the county development agencies are established in more and more counties.
Coordination and Monitoring sectoral programmes	Very difficult since every deconcentrated state body has its own territory which differ among each other.	There is a difference between the programming region and the NUTS II. This is not wise since it makes the monitoring of the programmes more difficult.
Partnership	Very well applied principle. Several partners are involved during the implementation and the monitoring of the programme. Shannon forms a success story in this respect. Here is a very good cooperation horizontally as well as vertically.	Horizontal and Vertical cooperation not very good. There is a lot of mistrust.
Approach	Efficiency approach; large part of the Structural Funds were concentrated on the well developed area of Dublin. The Structural Funds were well coordinated with the national policy.	Regional policy in Hungary is oriented at the equity approach. However since part of the regional development source is decentralised there is less focus on the poorest region in the Northeast. Furthermore the sectoral support is mostly concentrate on the Budapest area.

From the schema above appears the strong difference between the two countries. With the introduction of the Act for Regional Policy and Physical Planning Hungary has clearly chosen to follow another course than Ireland did in the last years. The Act introduces a decentralised institutional system responsible for the implementation of the regional policy. This involves a strong bottom-up approach. Since the regional structure in Hungary also differs from that in Ireland this new approach is a very wise.

## 5.2 Strengths and Weaknesses of the Irish system

From the table 5.1 appears the strengths of the Irish system which partly explain the success of the Structural Funds programme in this country. These are as follows:

- The principle of partnership, horizontally as well as vertically, is successfully implemented (Honohan, 1997);
- Priorities were based on a SWOT analyses and fit well within the national policy framework (Higgins, 1998);
- The national policy was complementary to the objectives and strategy of Structural Funds intervention (Honohan, 1997);
- The efficiency approach in Ireland was successful. The less developed regions benefited from the favourable economic situation as well. Partly this can be explained by the overall economic situation and the homogeneity of the country;
- The Department of Finance was responsible for the co-ordination. This is a neutral department with a long tradition and a good reputation. Therefore this department has a strong position within the national government. It is responsible to balance the government's budget which is complementary to the overall co-operation of the financial management of the Structural Funds (NEI, 1998);

Besides the strengths of the Irish system the following weaknesses can be defined:

- The regional structure is very weak. The region has no tradition and as a result the regional institutions have no executive tasks. The Regional Authorities and EU Operational Committees function badly. The national Departments consider their tasks as useless and time wasting (Flitzpatrick, 1997);
- The regional monitoring process is unsatisfactory for the following reasons:
  - The tasks and authorities of the monitoring bodies are not clearly defined;
  - Especially the EU Operational Committees are very heterogeneous;
  - The composition of the EU operational Committees are defined nationally and as a result do not have a regional identity;
- Because of the sectoral approach a lot of regional and local agencies are involved with their own regional boundaries with little adherence to the regions of the Regional authorities.
- The large number of agencies in the EU Operational Committees obstructs their functioning;
- The monitoring is dependent on the information from the Department of Finance. This department only provides in macro-economic statistical information and no regional information.
- There is a weak co-ordination of the implementation of the Operational Programmes.

The present system in Ireland will however not be approved in the next programming period by the European Commission.

### **5.3 Conclusion; lessons that can be learned from the Irish case**

Several *strengths* from the *Irish system* are interesting for the Hungarian situation. Summarised the following lessons can be learned:

- The importance of good partnership especially at the national level is very important for the success of a programme;
- The co-ordination between the several sectoral ministries should be the responsibility of a strong neutral ministry with a long tradition;
- The Regional Programme should be complementary to the overall national policy and therefore should have a strengthening effect;
- The Regional Programme should be based on the strength and weaknesses of the region.
- Furthermore the *Shannon* example shows (see table 5.1):
- The importance of an independent regional development agency;
- The importance of the macro-region;
- The importance of integrated regional policy instead of a sectoral policy. Besides the positive examples, Hungary can also learn from the main
- *weaknesses* of the Irish system. The following weaknesses contain an important lesson for Hungary:
  - The importance to define the tasks and authorities of the regional institutions clearly;
  - The importance of a good regional monitoring system and an associated regional statistical information system;
  - The importance of a bottom up approach when defining the regions and the associated institution;
  - The necessity to avoid a difference between programming regions and EU regions.

## 6. Conclusion

This discussion paper has shown that Hungary is well on its way in its preparation for the EU Structural Funds. The major step forward formed the launching of the Act on Physical Planning and Regional Policy in 1996. This act introduced a new institutional structure at all administrative levels and defined the tasks and authorities of the actors in regional policy. Although the Act forms a framework for a sound policy, the content should be formed in reality. Of course this content is subjected to a constant evolution, which outcome is still surrounded by mist.

Hungary is however in the favourable position that it can built an institutional structure in a vacuum, since it didn't have an institutional structure responsible for regional policy before. Of course this makes the situation also complicated. Nevertheless it gives the opportunity to set up a well functioning logical structure.

The implementation of the Act appears difficult at all institutional levels. The major problem at the *national level* is the lack of coordination and cooperation between the different ministries. Since regional policy integrates all sectoral policies, cooperation and coordination are two very important elements. The act stated that the Ministry of Environment and Regional Policy is responsible for the coordination as a chairman of the National Regional Development Council. However since this ministries lacks tradition and respect from the other ministries it is difficult to fulfil this tasks. The Irish case study showed the importance of partnership at the national level. The success of the co-operation between the different ministries in Ireland was largely the result of the strength and respect of the neutral co-ordinator, the ministry of Finance. Especially in a country were partnership has no long tradition a strong coordinator is of utmost importance. Besides the Ministry of Finance, this role can be fulfilled by the Prime minister.

Also at the *regional level* the implementation of the Act was hindered by a lack of tradition and partnership. The case study in Baranya and Szabolcs-Szatmár-Bereg showed that there is a lot of discord about the size of the region and its function in practice. Therefore it seems wise to distribute support based on programmes and not on statistical indicators. The advantage is that the counties have to cooperate in the region in order to receive support. Support can be only directed to programmes that fit within the national guidelines and meet certain quality standards. In this way the effect of the support seems better guaranteed and a division of money apart from the programme will be avoided. Finally, the regional identity can develop in time.

Since the region has no tradition in programming, it will be advisable that the role of the national government in supervising the smooth implementation will be slowly reduced. At first the national government can have a role in approving the strategy and the project. In a later stage the role of the national government can be reduced to approving the priorities and measures.

The *county level* is the traditional level for planning purposes. Most of the institutional structures are based on this level and the people feel emotionally tight to this area. The Act on Local Governments of 1990 however hugely diminished the authority of the county assembly. As a consequence the position of the local governments but also of the national government became stronger. The Act of 1996 again directed some decision making power to the county, however not to the Assembly, but to the newly created County Development Council. During the case study in Baranya and Szabolcs-Szatmár-Bereg, it appeared that the Act caused some confusion about of the role of both institutions in regional policy. The Act is not quite clear on this point and sometimes the theory and practice differ from each other. The deconcentrated offices of the ministries caused even more confusion, since these offices also had their own programmes which often were not co-ordinated with the regional programme.

In general, the coordination and partnership between the different institutions at the county level and between the local governments appeared difficult. As a result the decentralised support wasn't used for the realisation of the programme but divided between the small regions (which divided the money between the associations of local governments) and the businesses. Therefore, like the regional level, the national government should direct support based on the programme and not on statistical

indicators. The role of the national government is to define the guidelines, to approve the regional defined programmes and to monitor the implementation of the programme.

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#### *List of Interviewees in Baranya*

**Borsós István:** Secretary of Chamber of Craftsman

**Huszi Zoltán:** Vice-President of the Chamber of Agriculture

**Kakas Sándor:** Mayor of Pécsvárad, member of an association of local governments, Member of the Baranya county assembly, member of the County Development Council

**Keri István dr.:** Vice-president of the Chamber of industry and Trade, director of the MKB bank in Pécs

**Kovács Katalin:** Head of the secretary for the County Development Council

**Kovács Sándorné Mrs.:** Mayor of Sásd, Member of the County Assembly Member of the County Development Council

**Medvetzky Antal:** Representative of the Employees in the County Development of Council

**Mátis István:** Mayor of Szentlőrinc, member of the County Development Council

**Nóránt Klára Hajós:** President of the Ormánság Development Association, Member of the County Development Council

**Pálné Kovács Ilona:** Member of the County Assembly

**Péterfia Tamás:** Manager of the Enterprise Promotion Center

**Tóth Sándor:** President of the County assembly, President of the County Development Council, President of the Regional Development Council, President of the Enterprise Promotion Center

**Várga István:** Local Self government of Baranya County, regional planning office

#### *List of Interviewees in Szabolcs*

**Apáti Györg:** Mayor of Csenger, former member of the County Development Council

**Babogli Gabriella:** County Development Agency

**Csabai Lászlóné:** Mayor of Nyiregyháza

**Filep Gyuláné dr. Nagy Éva:** Director of the County Development Agency

**Háda Imre:** Mayor of Záhony, Member of the County Development Council

**Károly Vida:** Mayor of Baktalórántháza, member of association of local Governments, Member of the County Development Council

**Kelemen István:** Adviser of the President of the County Development Council

**Kézy Béla:** Phare consultant, former employee of the County Development Agency

**Kovács István:** Director of Primom (Enterprise Promotion Center)

**Lakatos András:** Director of the Chamber of Agriculture

**Mrenko László:** Representative of the Employees in the County Development Council, Member of the Labour Council

**Labbancz Marianna:** Primom

**Roka László:** Phare Consultants, former director of the County Development Agency

**Szabó Péter:** Mayor of Tiszadob, Member of Association of Local Governments, Member of the County Development Council, Member of the Regional Development Council

**Vincze István:** Head of Department of Regional Development of the Assembly, County chief Architect

**Veres János dr.:** Vice President of the County Development Council, President of the Chamber of Industry and Trade, Member of the Parliament



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