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**Controlled Decentralisation:  
Institution-Building and  
Regional Development in Hungary**

by  
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**Series editor**  

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This report analyses the changing institutional structures for regional policy in Hungary from the pre-accession years to the second phase of the post-accession period. The first part of the paper investigates domestic settings for regional policy providing detailed information about the chosen case study in Southern Transdanubia. The second section examines the three major pre-accession funds and the first National Development Plan, followed by the analysis of the changes brought in by the New Hungary Development Plan 2007–2013. Institution-building at the regional level stood in the focus of that international comparative research<sup>1</sup>, and this is the broader theme the present report is also centred around. When drawing the picture on accomplishments and constraints of decentralisation in Hungary, document analysis and qualitative research tools were equally used.

## **1 Regional policy in the making in Hungary**

### **1.1 Territorial disparities**

Hungary has seven NUTS II territorial units. All but one are a combination of three neighbouring NUTS III units, or counties. The one exception is Central Hungary which includes the capital city, Budapest and Pest county surrounding it. Since 2007, this region has been a ‘phasing out’ region, which means that enhancing ‘competitiveness and employment’ is the most important development goal here. The other six regions belong to the relatively undeveloped group that seek convergence.

The economic structure inherited from the socialist period has a strong impact on regional development. With the largest concentration of production factors, Central Hungary has been able to exploit its favourable starting conditions, as has the north-western regions of Transdanubia whose development potential has been increased by the Viennese core area. With the best road network, both regions capitalised on their neighbouring network relations and their status as gateways to and from the West. The other four NUTS II regions struggled with structural crisis (the collapse of heavy industry) and their peripheral geographical locations, whether as inner peripheries or as border areas. Recovery from their collapse has been slow, and investment rates have remained low. As *Table 1* shows, in the southern and eastern regions of the country, per capita GDP figures have been relatively declining since the mid 1990s as compared to the country average.

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<sup>1</sup> The research was covered by the “Challenge of Socio-Economic Cohesion in the Enlarged European Union” (SOCCOH) EU 6<sup>th</sup> framework program. Lead partner: London School of Economics, Robert Leonardi. Hungarian coordinator: Central European University, Andrew Cartwright. Team members: Endre Sik, Katalin Kovács. The manuscript was closed in October 2007.

Table 1

*Changes in GDP from 1995–2005*

Regions	Per capita GDP as a percentage of				Investments of economic actors Euro/person
	national average			EU-25 average	
	1995	2000	2004	2004	2005
Central Hungary	147.5	156.1	158.8	95.6	2168
Central Transdanubia	90.9	97.3	95.6	57.6	1252
Western Transdanubia	102.8	113.8	104.4	62.9	1056
Southern Transdanubia	81.4	74.2	71.3	43.0	630
Northern Hungary	72.4	64.1	66.4	40.0	782
Northern Great Plain	70.9	63.2	65.5	39.4	838
Southern Great Plain	82.6	71.1	69.0	41.6	580

*Source:* Compiled from National Accounts, CSO, Budapest.

Two thirds of Foreign Direct Investment had been directed to Central Hungary, which helps explain why this NUTS II region contributes 44.6% to the national GDP.<sup>2</sup> Budapest and its metropolitan zone is the only spatial unit where GDP per capita has continuously increased since 1995. By 2004, it was close to the EU-25 average. Almost four times more per capita investment comes to this region than to the Southern Great Plain, which is the least attractive NUTS II unit for investors. After some progress, the Central and Western Transdanubian regions experienced a decline in GDP after 2000, while the North and the North East regions reduced the relative gap after starting from a very low position. The Southern Transdanubian and the South Great Plain regions have both been unable to halt their decline. Regarding GDP per capita figures, the north-eastern and southern regions of Hungary were well below the 75% national average at around 40% of the EU-25 average in 2004 (*Figure 1*).

In the most successful regions, manufacturing and services have been the most profitable branches and are found at above-average levels. Western and Central Transdanubia have more manufacturing industries while the highest number of service industries can be found in Central Hungary. *Annex 3* shows that when agriculture-related activities and public services make above-average contributions to GDP, as they do in Southern Transdanubia, they do not generate adequate levels of value added.

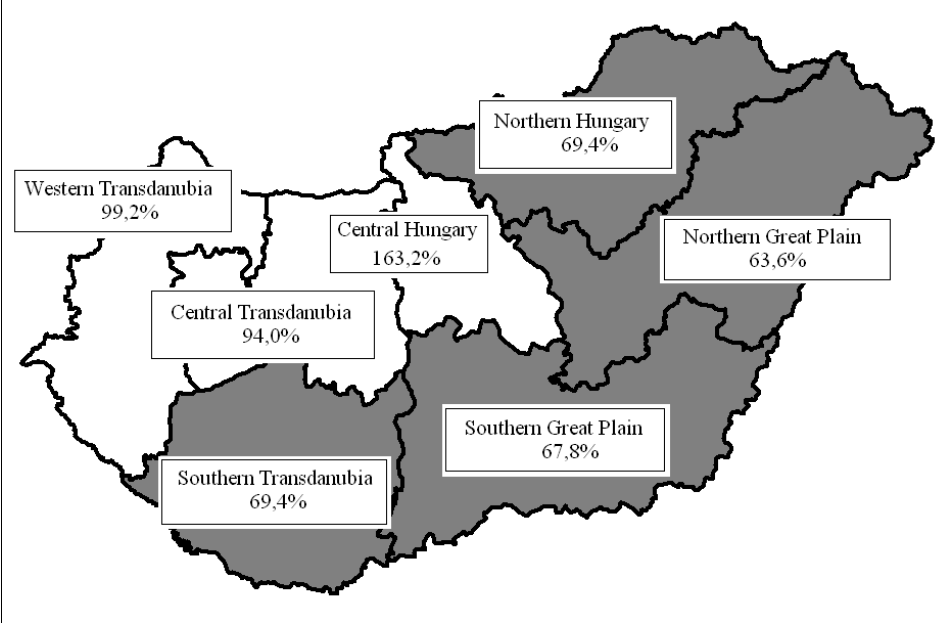
The employment figures for the past fifteen years show an east-west and south-north divide of Hungary. *Table 2* illustrates some of the most important fault lines.

<sup>2</sup> 2004 figures, National Accounts, CSO.

In Central Hungary and the central and western parts of Transdanubia, labour market participation approached 60% in 2005. This was well below the EU-25 average, but it reflected higher employment capacities than the least developed northern and north-eastern regions. Southern Transdanubia and the Southern Great Plain regions were closer to the group of least developed regions with participation rates of 51.6%. These figures were more telling about the country's employment capacities than the unemployment rate, which, at 7.2%, appeared to be low in comparison with other member states. Unemployment was and remained highest in Northern Hungary and lowest in Central Hungary. The developed north-west is closer to the centre while the southern regions are similar to the least developed northern and north-eastern regions.

Figure 1

*Lagging regions in Hungary according to per capita GDP figures 2005*



Source: Compiled from National Accounts, CSO, Budapest.

**Table 2**  
**Regional structure of employment and economic activity in 2005**

Regions	Employed	Unemployed	Economically active	Economically inactive	Of which passive unemployed	Participation rate, %	Unemployment rate, %
	persons, thousands 2005						
Central Hungary	1,238.9	67.4	1,306.3	884.5	14.4	59.6	5.2
Central Transdanubia	459.5	30.9	490.4	366.2	6.5	57.2	6.3
Western Transdanubia	425.5	26.8	452.3	323.8	4.1	58.3	5.9
Southern Transdanubia	353.6	34.1	387.7	363.0	13.2	51.6	8.8
Northern Hungary	418.7	49.7	468.4	492.0	30.4	48.8	10.6
Northern Great Plain	517.4	51.6	569.0	589.5	31.3	49.1	9.1
Southern Great Plain	487.9	43.4	531.3	498.1	10.8	51.6	8.2
Total	3,901.5	303.9	4,205.4	3 517.1	110.7	54.5	7.2

*Source:* Micro-census figures, Hungarian Statistical Yearbook 2005, CSO, Budapest, 2006.

## 1.2 Local and regional policies and policy instruments

The content and institutional settings for regional policymaking were strongly connected to the decentralisation of public authority in Hungary. In the early 1990s, local authorities assumed increased powers and competencies over schools, health clinics and care for the elderly. One recurring theme in the regional development literature has been how this initial surge for local autonomy was followed by disillusionment, as restrictions caused by low revenues became more apparent.<sup>3</sup> Difficulties in maintaining public services encouraged some settlements, small towns and the surrounding villages to operate public services jointly. From 1997<sup>4</sup>, when the relevant legal framework on municipal associations came into force, the number of formal legal co-operations increased significantly (*Imre*, 2003). Voluntarily run small-scale associations, particularly those aimed at joint running of kindergartens and elementary schools were and still are promoted by state subsidies. Act No CVII, 2004 on the Multi-Purpose Micro-Regional Associations also exploited the 1997 regulation and encouraged larger scale co-operations in order to guarantee sustainable, cost-effective public services and, in practice, fostering the further concentration of rural schools.

The gradually increasing EU pressure to establish administrative capacity at the NUTS II level combined with endogenous demands for greater devolution. The Hungarian Act on Regional Development and Physical Planning (ARD) 1996<sup>5</sup> laid down the groundwork for the establishment of seven new territorial regions. It established a hierarchy from the statistical micro-regional level via two meso-tiers of the county and the Regional Development Councils (RDCs) to the national Regional Development Council at the top. The national and county development councils were the strongest; the former for its scale and competencies, the latter being made up of locally elected self-governing bodies. The establishment of the micro-regional association and RDCs were optional. The fact that there was little mandate and little financial support meant that the new regional entities were extremely weak.

With the need to convince the European Commission that there was domestic institutional and absorption capacity, the central state took increasing interest and control over the regionally based institutions. A first step was in the Regional Development Concept from 1998 that fixed the geographical borders of the seven regions. This was followed by an amendment in 1999 that made the establishment of the RDCs mandatory but placed them under greater state control: certain social actors, such as the economic chambers and the Hungarian Academy of Sciences were replaced by central government representatives and the majority

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<sup>3</sup> For an account of this in relation to the provisions of public education, see Radó et al. 2006.

<sup>4</sup> Act no CXXXV of 1997 on the Associations and Co-operation of Local Self Governments.

<sup>5</sup> Act no XXI of 1996 on Regional Development and Physical Planning.

votes of the latter was secured (Ágh, 2003). The mandatory duties of the RDCs which were to create regional development strategies on the basis of partnership, expanded to include development activities. After 2002 half of the Regional Development Appropriation was decentralised to the regional level.

Regionalisation was a mandatory feature of Europeanisation, managed centrally and encouraged externally. According to most commentators, the new regional institutions were evidently generated by top-down, albeit useful government action, which could not be accompanied with any sufficient accumulation of confidence or trust from below. Faragó argues that since the regions did not emerge out of any long process of social reconciliation or consultation, it was more a course of rationalisation of social control and a new system of monitoring. (Faragó, 2005).

These weaknesses have created problems with administrative capacity. Without strong regional identity and effective institutions, there was a fear that the new regional actors would be unable to assume the functions expected of them. This eventually resulted in the EC abandoning decentralised management of Structural Funds in Hungary, despite the fact that it was one of the major goals of the pre-accession process. On joining the EU in January 2004, the first programmes were planned and managed centrally because the Commission judged the regional institutional capacities as inadequate. The Hungarian delegation did not accept this assessment, but they conceded the point to the EC delegation and developed the whole process accordingly (Szaló, 2005). The Commission offered the “regional action plans” as weak substitutes for the lost regional operational programmes, which in the words of one commentator “were finally compiled in a rather hasty and improvised fashion” (Somlyódyne Pfeil, 2005, 117).

The fact that despite all the efforts to create regional governance, the decentralised institutions were unprepared to fulfil the tasks indicates failure, but also reflects the new waves of re-centralisation tendencies. The first and probably the most important component is *path dependency*<sup>6</sup>: with no (NUTS II) regional tradition, the heart of “region-building”, that is regional identity, was completely missing. This explains the smooth increase of central government representation in the RDCs which helped to cool nascent regional enthusiasm.

A second reason for failure was the sheer challenge of the task. In retrospect, creating a new tier of government from scratch, and making it effectively operational within a decade proved to be too ambitious. This was despite the fact that most actors accepted that regions should be operational by 2004.<sup>7</sup> Counties remained politically strong not only because of their deep historical roots and strong

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<sup>6</sup> The importance of past government structures is emphasized by Paraskevopoulos – Leonardi (2004) and Paraskevopoulos (2006).

<sup>7</sup> Regions’ being mandatory condition to join the EU or not has always been blurred by professionals, even academics as well as by practitioners notwithstanding the media.

identities, but because elected counties are eminent terrain for party politics (Ágh, 2003). None of the political parties could neglect counties and so “they were preaching regions while keeping counties”.

Thirdly, the political strength of counties has not been coupled with strong development potential and NUTS IV level micro regions are also weak. While evidence may increasingly show that small local governments with a low co-operation culture is unsustainable, most except the largest regional centres became further detached from their neighbours. A majority felt threatened with losing their small but safe resources accessible at NUTS III level. Their fears relate as much to their invested social capital in these county networks as towards the financial means endangered by re-scaling government intentions. In other words, each tier is “floating” as Ágh remarked, something that is considerably hindering institution-building (Ágh, 2003).

Finally, Futó, Pálné Kovács and Fleischer argued that the central government has been one of the most important parties resisting changes:

“Government actors, in particular those ministries that are responsible for national and European resources are not interested in decentralisation and may be an obstacle to change” (Futó – Pálné Kovács – Fleischer, 2006, 132).

Following the general elections in May 2006, certain institutional changes were introduced. A government proposal to award the seven regions self-governing functions was rejected by the opposition and the counties preserved their elected councils. However, the process of “emptying” out this level and shifting its tasks towards the regions and the micro-regions continued. From 2007, even the two small regional development funds that had been solely for the counties since 1996<sup>8</sup> were transferred to the regional level. The resources continued to cover small-scale infrastructural development projects via a longer redistribution channel which crossed both county councils and the micro-regional councils.<sup>9</sup> (Table 3).

In addition to these instruments, the Regional Development PHARE Programme spent 27.83 billion HUF from 1996–2002. Convergence was further promoted by tax allowances and additional advantages provided for the seven

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<sup>8</sup> TFC = Direct Instrument for Regional Development and its successors from 2004, TEKI = Support for Promoting Spatial Balance, CÉDE from 1998 = Targeted Decentralised Appropriation, LEKI in 2006 = Support Targeting the Least Developed Micro-Regions.

<sup>9</sup> County councils usually distributed these resources among micro-regions according to their population number. The micro-regional councils either distributed the allocated fund further to sub-micro-regions by using the same principle, or selected investments to support yearly from their members’ claims. These grants were always used by local governments exclusively.

disadvantaged counties<sup>10</sup> and for the most backward micro-regions. The bulk of instruments with regional development impacts were channelled to infrastructure and enterprise promotion.<sup>11</sup> (*Figure 2*).

The importance of the decentralised funds for regional development can be compared to the EU Structural Funds allocated to the Regional Operational Programme (ROP) in the first National Development Plan. ROP support between 2004 and 2006 reached 126.4 Billion HUF, 62% of the decentralised incentives. The allocations reflect the main convergent goals: 69% of the domestic decentralised funds and 67% of the ROP resources were spent by the lagging four regions.<sup>12</sup>

As far as the institutional chain is concerned, some slight and some major changes were realised in 2006 (see *Annex I*<sup>13</sup>). At the central level, these changes relate to the rearranged managing institutions of the EU Structural Funds. The reorganised National Development Agency is the chief organ responsible for EU-related programming and programme implementation. Not only co-ordination responsibilities but all Operational Programme managing authorities are placed under its umbrella.

Table 3

*Financial instruments for regional policy  
(in billion HUF, at current prices)*

Regions / financial instruments	Total of the decentralised financial instruments			
	1996–2002	2003–2006	1996–2006	Share %
Central Hungary	16,43	11,83	28,26	9
Central Transdanubia	14,58	10,6	25,18	8
Western Transdanubia	12,06	8,6	20,66	7
Southern Transdanubia	20,51	18,03	38,54	13
Northern Hungary	32,35	31,93	64,28	22
Northern Great Plain	36,04	36,8	72,84	24
Southern Great Plain	25,17	23,58	48,75	16
Total	157,14	141,63	298,77	100

*Sources:* 1996–2002: Community Support Framework, Hungary 2003, 43 p.; 2003–2006: Compiled from the tables of Accounts on the De-centralised Territorial and Regional Development Appropriations, Ministry of Interior, Budapest.

<sup>10</sup> Counties having less than 70% GDP per capita of the country average.

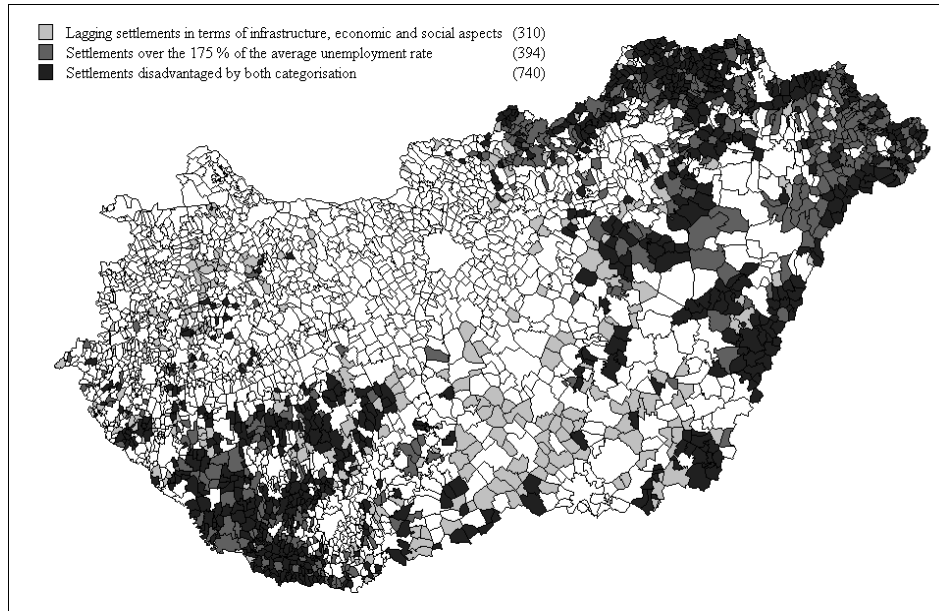
<sup>11</sup> Community Support Framework, Hungary 2003, 43 p.

<sup>12</sup> Data base brought about by B. Koós from TEIR data. Department for Spatial Development Research, Centre for Regional Studies, 2007.

<sup>13</sup> Upgraded from *Pálné Kovács – Paraskevopoulos – Horváth*, 2005, 438.

Figure 2

*Lagging settlements targeted by domestic regional policies*



Source: 240/2006. (XI. 30.) Government Decree.

Beyond the Agency's executive director, a government commissioner was attached to the NDA who reports directly to the Government. He is in charge of coordinating the programming and the implementation of the New Hungary Development Plan. A Development Policy Steering Committee with seven members of vice secretary of state rank and belonging to the Prime Ministers' Office has also been created. This advises the Government in all NHDP-related matters. Social oversight is applied through the National Development Council (NDC), which aims to represent broad national interests. The NDC is made up of the seven chairmen of the RDCs, five representatives of "excellence" (university professors, members of the Hungarian Academy of Sciences) and seven delegates from chief social partners.<sup>14</sup>

At the regional level, changes are slight but still important. The chairmen of the RDC have effectively become government commissioners as they are nominated by the central government. Their election is secured by the majority votes

<sup>14</sup>They are as follows: the chairman of the Alliance of Autonomous Trade Unions, the chairman of the Alliance of Entrepreneurs and Employers, 2 delegates of the Economic and Social Council, the chairman and the chairwoman of one of its committees, the chairman of the Association of Industrial Parks, the chairman of the Hungarian Academy of Sciences.

of the council members. The appointment of the executive directors of the RDAs by the RDC is approved by the National Development Agency. These changes reflect an increasing government control aimed at balancing the growing regional competencies brought about by the decentralised operational programmes. It is worth paying attention to the NGOs in *Annex 1* as they “float” at local and regional levels, even though they supposedly constitute missing links in terms of interest representation.

Shifting our interest to the *content of development policies*, the Government Decree ‘Contents and Organisational Frames of the Europe Plan 2007–2013’<sup>15</sup> sought to adapt EU cohesion policy and prepare for the absorption of the 2007–2013 EU funds. It aimed to do so by drawing up an overall, long term country strategy along EU guidelines.<sup>16</sup> In order to further weaken the sectoral logic of planning, the Decree created inter-sectoral thematic working groups as important units in the planning exercise.

As far as these thematic working groups were concerned, the representation of the horizontal themes of culture, safety, equal opportunities, and public administration were elaborated as was the mandatory inclusion of regional planners. The Government established<sup>17</sup> eight working groups<sup>18</sup> and asked the seven chairmen of the RDCs to organise parallel thematic working groups at a regional level. They were encouraged to invite social partners, representatives of the economic sectors and representatives of the natural and social sciences. One section of the Prime Minister’s Office<sup>19</sup> was ordered to co-ordinate the regional working groups.

Some items within this ‘Decree on Europe Plan’ were innovations especially the establishment of interlinked, broad strategic frameworks such as the development strategy of the country and a revised regional development concept in line with EU policy guidelines, and secondly, the mandatory organisation of inter-sectoral working units at both central and regional levels.

The most important documents of strategic importance, the National Development Concept (NDC) and the revised National Spatial Development Concept (NSDC) were accepted by the Parliament in December 2005. The preparation of the New Hungary Development Plan (NHDP) speeded up after this point. According to the original government intentions, the NHDP should have been a

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<sup>15</sup> 1076/2004. (VII. 22.) Government Decree.

<sup>16</sup> The four broad objectives of the Strategy were also formulated in this decree: social and economic cohesion, knowledge-driven and renewing society, competitive economy, sustainable development.

<sup>17</sup> The date of issuing was the July 22<sup>nd</sup> 2004, the deadline for establishing the WG-s was the 31<sup>st</sup> of July.

<sup>18</sup> WG-s were titled as follows: „Healthy Society”, „Clever and Cultured Society”, „Active Society”, „Information-Based Society”, „Competitive Economy”, „Catching up Rural Areas”, „Liveable Environment”, „Dinamic Settlement System”.

<sup>19</sup> County Territorial and Regional Development Office.

strategic document adapting all pillars of the NDC but narrowing their scope down to EU-financed policies. In the end, this did not work out. The NHDP absorbed most of the sectoral policies and their instruments, and in terms of co-financing it was far too demanding. In order to maximize the country's absorption capacity, as much funds as were available had to be channeled into the NHDP budget to cover the national contribution.

Regarding the country's huge budget deficit in 2006–2007, it is understandable that what remained for non-EU-related purposes would be extremely limited. The example of the regional policy instruments illustrates the “drying out” of these domestic sources. For a long time it was uncertain whether or not the decentralised regional development appropriations would continue after 2007 at all. Eventually, a concentration of decentralised funds at the regional level was agreed at along with considerable cuts in the already small budget. When demarcation of the themes of eligible projects to be supported by domestic regional resources from the ones eligible for EU funding<sup>20</sup> was made, a pattern of small goes to the “home” funds, large goes to “Europe co-financed” funds appeared evidently.

The NDC, which was approved by the Commission in April 2007, is implemented through eight sectoral operational programmes (Ops), and seven Regional OPs (out of which six fulfil convergence purposes). OPs are further broken down into “action plans” which specify the tendering details. Sectoral and regional action plans were accepted by the relevant authorities during the Spring of 2007 and put on the website of the National Development Agency for public discussion.

The unity of the most important planning documents regarding their approach, philosophy, broad objectives and policy instruments as well as the decentralised implementation of the ROPs are innovations brought about by EU-accession. On the whole, they are interpreted as a positive result of joining the EU. However, there are critics that stress that unity might be threatened if the plans are not balanced. The NDC declared that the primary objective of development policy is increased competitiveness (“Competitive Hungary”) followed by social and territorial cohesion as secondary objectives (“Equitable Hungary”). This ranking appears also in the NHDP and the National Spatial Development Concept. It is not so much the order which matters, rather the scale of ignoring the needs of the weak that is a matter of concern. According to a recent qualitative research project, the leaders of small villages in Southern Transdanubia felt threatened with complete exclusion from development chances because of the themes of the eligible measures and the thresholds of funding. These fears are not denied by the planners. As the executive manager of the RDA in Southern Transdanubia put it in an interview:

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<sup>20</sup>The relevant Parliamentary Decree has not yet been approved.

“People [in the countryside] talk about it [the ROP of Transdanubia], and they see that there might be in trouble. ‘What will be for us, the schools and enterprises employing two persons ...’ – they ask. Well, the ROP will not help them.”

Safeguarding a balanced territorial development appears in the NDC as a horizontal goal. This means that the reduction of regional disparities has to be considered for each aspect of the Concept. This is repeated in the NHDP where reducing regional disparities appears as the fifth among the priorities. The National Spatial Development Concept (NSDC) of 2005<sup>21</sup> was the place for providing a general framework of Hungarian regional policy.

Beyond favouring competitiveness, and emphasising the importance of spatial cohesion,<sup>22</sup> the NSDC allocates tasks and responsibilities to the micro-regions, regions and the counties, usually at the expense of the latter. Regions are interpreted here as the future loci of territorial democracy with elected self-governments and coordinating partners. This is the tier of regional programming, programme implementation and monitoring equipped with appropriate capacities assisted from the lower ranks as well. Micro-regions (NUTS IV) are also envisaged as long-term regional policy actors being loci of planning, harmonising and mediating the interests of local governments (NUTS V), as well as rationally operating public services with assistance from the counties. Beyond assisting the regions and micro-regions in programming, the responsibility of counties is restricted to public service provision in the middle run, and the smooth integration into the regional institution system in the longer run.

In line with the aim of strengthening the competencies and responsibilities of the regions, increased basic and territorial-level financial assistance is promised in the framework of “contracts” between the government and regional actors of policy implementation. The target areas of regional policies that will be supported by decentralised financial instruments are defined as those disadvantaged micro regions where a maximum of 30% of the country’s population lives, and within this group of disadvantaged micro-regions the least developed ones at a maximum of 10% of the population.

In sum, the Concept lays down the basics of a domestic regional policy, already adapted to EU cohesion policy. Therefore, rather than separating EU related and domestic policy goals and instruments, it integrates them as much as is possible in the broader CDC and NHDP programming documents delegating funding to the measures of NHDP.

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<sup>21</sup> 97/2005. (XII. 25.) Parliamentary Resolution on the National Spatial Development Concept.

<sup>22</sup> NSDC stipulated the broad goals of territorial development as follows: 1. Regional competitiveness, 2. Spatial cohesion, 3. Sustainable spatial development and the preservation of heritage, 4. Spatial integration into Europe, 4. Decentralisation and regionalism.

### **1.3 The pilot area: the Southern Transdanubian Region**

The South Transdanubian Region has got the smallest population of the regions, and the third worst figures for natural decrease, out-migration and aging population. The micro-census showed that there were 16,553 fewer people living there in 2005 than there were in 2001. Made up of three counties, Baranya, Somogy and Tolna, the total population was 975,815 persons. It has the third largest surface area with 1,416,856 hectares area or around 15% of the total country surface. This combination of abundant land and below average population means that Southern Transdanubia is the most rural region in Hungary with 68.9 persons per square kilometre.

The geographical character explains its low population density index: the typical landscape is hilly with numerous small villages in the valleys. Apart from the regional 'capital' of Pécs with its population of 150,000, there are few medium-sized towns in this region. Pécs is the county seat of Baranya County; Kaposvár, the seat of Somogy county, is the second largest in the region with some 65,000 inhabitants. The third county seat, Szekszárd is the smallest urban centre in the region with 35,000 inhabitants, but the largest in Tolna County. Paks, which is home to Hungary's only nuclear power plant has 21,000 inhabitants and is also located in Tolna county. Paks is always in the top few towns in terms of income per capita. The high production value of the nuclear power station raises the GDP indices of the county considerably, something that highlights the lack of other significant economic forces.

There are 654 settlements in Southern Transdanubia out of which 488 are villages with less than one thousand inhabitants. Within this group of localities, there are 346 tiny villages with less than 500 people, which reflects that not only is Southern Transdanubia the most rural region, it also has the most fragmented settlement structure. Both the scattering of settlements and the pronounced ghettoisation processes, especially in the peripheral border areas, create zones of critical social crisis.

In terms of potentials, projects that enhance the road network are vital for halting further decline and for increasing its capital-attractiveness of the region. According to participants in the planning workshops for the New Hungary Development Plan, the most important relevant projects are those included in the nationwide Transport Development Operational Programme.

Human resource capacities are as important as physical ones. Southern Transdanubia has a relatively low number of professionals in engineering, natural sciences, economics, law and social sciences. This is in spite of the presence of The University of Pécs and the agricultural university in Kaposvár. There are relatively large numbers of teachers working in the region (10% of all in Hungary); there are also 5% of employees working in culture, the arts and the religious sec-

tor. Forestry, hunting and fishing sectors are over-represented in Southern Transdanubia: 16% of the country's forest workers and professional hunters. As the region borders Lake Balaton, which is the largest lake in the country, it is not surprising that there are large numbers in the fisheries sector - 31% of Hungarian fishermen work here. The employment capacity of agriculture, both crop farming and animal husbandry, as well as various industrial branches are around average. The numbers in mining were below average at 7.3%, while the food industry and construction remained slightly higher than in other parts of the country with 11.3% and 10.4% shares respectively.

This settlement structure has encouraged relatively more co-operation between villages than elsewhere in Hungary, and the ratio of cooperation actions between civic associations and local authorities for carrying out educational, cultural, health-care and social tasks is above the national average. The creation of district notary offices, for example, is also a feature of this region. Almost one third of all district notary offices can be found in Southern Transdanubia, although there are significant differences in scale between the three counties concerned.

## **2 Pre-accession funds and Structural Funds in Hungary**

### **2.1 The pre-accession programmes**

#### ***2.1.1 The features and implementation of pre-accession programmes***

In the below section we are going to concentrate on two pre-accession programmes of the European Union, The Special Accession Programme for Agriculture and Rural Development (SAPARD) and the Poland and Hungary Assistance and Reconstruction of the Economy programme (PHARE) which was started in 1992 for their significance in terms of institutional building and mechanism for europeanisation.

From the Commission's point of view, *SAPARD* was a central means for institution-building. There were severe logistical difficulties in channelling the direct payments to hundreds of thousands of farmers and rural inhabitants. There was no similar institution in the older EU member states. As the head of the SAPARD Office pointed out at a Bulgarian conference in March 2004:

“... when Austria, Finland and Sweden acceded to the EU, they already had structures in place for co-financed aid to be granted. They also had a stock of pre-existing commitments to final beneficiaries. ... Thus those new Member States were able to absorb substantial Commu-

nity payment appropriations almost immediately post-accession. Will the members joining in 2004 be able to do likewise?" (*Wilkinson, 2004, 2*).

SAPARD was designed to give a positive answer to this question. With a budget of 282.7 million Euro, it was the only pre-accession assistance programme that was managed by the eligible countries. Unlike PHARE, the new administrative structures operated without the control of the EU Delegations. Both the Commission and the accession countries took the risk of losing substantial EU funds if these new institutions failed. To reduce this risk, a Managing Authority, Monitoring Committee and SAPARD Offices were established with extremely strict auditing procedures.

Hungary was the first country whose SAPARD Plan was accepted but the last whose Paying Agency was accredited. The procedural manual for this agency ran to 2000 pages alone and, in practice, was hopelessly complicated. There were criticisms that measures for promoting agricultural enterprises favoured the big and successful. Even so, the strict criteria concerning turnover and net profit meant that funds were inaccessible even for these actors. In the summer of 2003, amendments were made by the SAPARD Monitoring Committee and subsequently approved by the Commission. Once this was done, the parallel domestic development funds, which had been much more accessible and much more solicited, were stopped and applicants redirected towards SAPARD.

The management of SAPARD was partially deconcentrated. Programme-level procedures were controlled by the SAPARD Monitoring Committee and managed by the Managing Authority. Its regional administrative branches, however, were authorised to select projects and enter into contracting. When the administration structures of the Agricultural and Rural Development OP were set up after accession these crucial functions were re-centralised. For the third generation of rural programmes coming into force in late 2007, centralised decision-making was once again restored.

Not only was SAPARD relatively regionalised as compared with subsequent programmes, rural development policy was also shaped by regional policies when the preparation process for EU-accession started. In 1999 and 2000, under the pretext of preparing for SAPARD in a territorially coordinated manner, the Chief Department of Rural Development launched a programming procedure at micro-regional and regional levels. Headed by a former regional planner, this chief department within the Ministry of Agriculture was an institutional innovation brought about by the new government in 1998.<sup>23</sup>

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<sup>23</sup> Between 1998 and 2002 the regional development portfolio was brought under the umbrella of the newly titled Ministry of Agriculture and Regional Development.

The influence of the rural developers was further weakened when mainstream agricultural policy-makers regained their political strength. A distinct rural development policy that was relatively independent of agricultural policies did not fully develop between 1998 and 2002, as it had done in the Czech Republic (*Hudeckova – Lostak, 2003*). Nevertheless, there were several important if short lived measures in terms of planning and institution-building; for instance, the Rural Development Offices established in the regions to administer domestic rural development funds. As agriculturalists favoured neither the concept nor the implementation rules of these units, new regional branches were brought about in the SAPARD phase and, after several years of inactivity, the rural development offices were dissolved in 2005.

Post-SAPARD continuity was not secured by the new administrative structures, at least not directly. In 2004, the SAPARD Agency and the Agricultural Intervention Centre responsible for the transmission of domestic supports were unified and a new agency called the Agricultural and Rural Development Agency (ARDA) was established. Half of the small task force of former Rural Development Offices<sup>24</sup> found employment in the LEADER departments of the regional branches of the ARDA. Although many of the SAPARD staff was employed by this new agency and few operational mechanisms were taken over as well, it was more the development priorities and the measures which represented continuity with SAPARD. Pillars of the new agricultural and rural development programme common with the SAPARD priorities were as follows:

- technological and infrastructural improvements in the food sector, developing infrastructure (roads and pipelines),
- promoting the diversification of the rural economy and inspiring the cooperation of producers,
- agri-environment
- protecting rural heritage

SAPARD was important not only from the administrative lessons learnt. Developing successful project proposals was an enormous task for the applicants. Complicated forms, the number of certificates required, and even the amended eligibility criteria were such that only the large and determined players remained in the competition. In the end, SAPARD was a competition of proposal writers, and there were many new consultancy companies that grew on its basis. If an application managed to meet the formal criteria, it was usually supported because there was a scarcity of competing projects. Therefore till the end of 2003 spending was well below the expected rate, when emergency measures were taken. In Spring 2004 following a strong communication campaign and a re-grouped ad-

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<sup>24</sup> Altogether 21 staff members worked in regional rural development offices, three in each.

ministration capacities, the number of proposals boomed. Many eligible applications now had to be refused because there were not enough funds allocated, particularly those related to the village renewal measure.

From the very beginning PHARE had a significant impact on central and regional institution-building. 70% of the 1.477 million Euro grant that Hungary received between 1990 and 2003 supported small and large investments, while the remaining funds were used to strengthen the NGO sector and assist the early development of institutions, such as the regional or micro-regional development councils.

The most important measure for assisting the central administration was the twinning programme that, from 1998, brought short-term and long-term experts from member states to the central administration of Hungary. Altogether 15 million Euro was spent on institution- and capacity-building between 1998 and 2004. The long-term twinning experts exerted significant influence on the new policy strategies during the last pre-accession phase, when the chief programme documents were elaborated. In Hungary it was the French and the Dutch advisers that were the most prevalent and effective. Beyond twinning experts, the PHARE offices within the relevant ministries promoted adaptation process with advising and project managing capacities. From the PHARE Office of the Ministry of Agriculture and Regional Development, for example, many of the staff members moved on to the SAPARD Agency in 2002. The deputy chair of the latter was the former chair of the MARD PHARE Office, thus ensuring some continuity of EU working culture.

Between 1992 and 1999 there were five regional development projects implemented with a total value of 59 million Euro. Between 1992–1994, pilot programmes in the least developed eastern counties aimed at developing county development councils and micro-regions. These projects fulfilled a missionary role in an epoch when devolution prevailed, when old mechanisms remained and new ones had yet to be brought in. The experience gained in these projects was useful when the Regional Development Act in 1996 was introduced. This Act opened up a new area for PHARE, that is, strengthening the regional institutions. Southern Transdanubia, and the Southern Great Plain were selected as pilot areas, and funded with 4 million Euro each. The goal was to support planning at the regional level and to adopt the institutional model that was formerly suited for county level. Programmes in 1995 and 1997 targeted regional disparities, supported investment and strengthened the NGO sector. In these projects, decision-making was decentralised to the new Regional Development Councils while their management, including processing as part of the project selection exercise, was delegated to the Regional Development Agencies. The low costs projects, up to 100,000 Euro, were handled in the regions entirely, while the projects over 100,000 Euro were managed by the National Regional Development and Town

Planning Office and approved by the European Delegation in Budapest. After 2000, PHARE projects promoted absorption capacities for Structural and Cohesion Funds via more regional pilot programmes in the eastern regions and financing thematic programmes country-wide, such as the Orpheus programme in 2003–2004 which promoted complex human resource and infrastructural development projects.

The starting and finishing measures of PHARE such as tourism promotion, SME development, supporting the NGO sector, improving school infrastructure and enhancing teaching materials, developing joint projects between village/town centres such as road networks were all immediate predecessors of the post-accession operational programmes. The same can be said about the PHARE CBC programme which served as much the adoption of EU regional policy as the preparation for PHARE Interreg. Regarding the preparation for meeting other EU requirements, PHARE also focused on equal opportunities, promoting partnerships and fostering local democracy.

### ***2.1.2 Pre-accession policy and institutions in Southern Transdanubia***

As mentioned earlier, there was some history of inter-county co-operation in Southern Transdanubia. In the first half of the 1990s, four Transdanubian counties began to strive for regional cooperation, three from Southern Transdanubia and Zala, the county adjacent to Somogy. A Regional Development Foundation was founded in 1994, leading to the establishment of the Regional Development Council. The Foundation had 15 members: the local governments of the four counties; the chambers of commerce, the universities and research institutes of the region, and the representatives of the Foundation for Promoting Enterprises and the Ministry of Environment. Its successor, the South-Transdanubian Regional Development Council was founded in February 1997 and headed by the chairman of the Somogy County Development Council. One year later the Regional Development Agency was set up in Pécs. The operation of these units was financed from the 1997–2000 PHARE regional pilot project.<sup>25</sup> This helped develop the institutional framework and mechanisms for EU-compliant regional planning. In addition to the 4.4 million euro from PHARE, the government co-financed the programme with 285 million HUF divided equally between the two experimental regions.

The objectives were to create an effective regional institution for implementing decentralised programmes, and to establish the necessary professional background for running them. It helped collect practical experience in regional cooperation. For Southern Transdanubia, the four development priorities were de-

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<sup>25</sup>EU Phare HU 9606-02.

terminated by the regional players: the co-ordinated development of rural areas; the improvement of the competitiveness of small- and medium size enterprises; utilising the tourism potential and attracting investors to the region via regional marketing.

Projects were submitted to the Regional Development Agency and selected by the Regional Development Council. For Southern Transdanubia, there were 72 applications submitted by local and regional organisations, applying for almost double the amount available. The applications were relatively well spread across the four development priorities, yet the shortage of own resources meant that projects were relatively small-scale in financial terms.

The RDC and the RDA were the most important institutional actors in selecting, monitoring and assessing PHARE projects. The RDA managed the application process and helped prepare for the final selection decisions that were taken by the Council. The final evaluation of the programme was satisfied with the decentralised and professional nature of decision-making, but criticised the actual implementation of projects for being too centralised and less well prepared. The use of non-standardised procedures during implementation created a certain degree of mistrust on the part of the EU delegation and led to lengthy approval procedures in Brussels. One of the main criticisms was that the principle of partnership had not been fully realised. A rather small staff managed a relatively complex system and, especially in the implementation phase, more weight was given to administration considerations than to efficiency and effectiveness.

At the same time, the final evaluation did concede that the programme introduced concepts of regional cooperation and partnership, and it had encouraged applicants to turn away from schematic implementation to complex planning. The rules of implementation did not always help form new partnerships and realise complex projects. However, the programme was deemed a success in its contribution to the knowledge and practical experience for future EU regional development fund management (EU Phare HU 9606-02 Regional Pilot Program Ex post Evaluation, 2002).

Southern Transdanubia was rather successful in attracting pre-accession funds as illustrated by the table below. Altogether 17% of the projects and 16% of funds were absorbed by this region, significantly more than either the population share of 10% or its contribution to Hungary's GDP at 7%. PHARE was the most successful pre-accession programme and despite the fact that pilot programmes starting in 2000 were restricted to the eastern regions of Hungary, 40% of successful projects came from Southern Transdanubia absorbing 26% of the allocated total funding. To a large extent, the regional pilot programme made a significant contribution to this success (*Table 4*).

**Table 4**  
**Absorption capacities by region**

## 2.2 The First National Development Plan financed by the European Union

### 2.2.1 Centrally managed sectoral and regional programmes

Within the first National Development Plan, 3.354 million Euro was targeted for development purposes co-financed by the EU (75%) and the Hungarian Government (25%). In addition, another 98,9 million Euro was allocated from the European Union to cover two community initiatives, Interreg (68.6 million Euro) and Equal (30.2 million Euro).

The other two Community Initiatives, Urban and LEADER, did not start for the short period 2004–2006. However, a LEADER+ measure was included in the Agricultural and Rural Development Operational Programme (ARDOP) with a budget of 19 million Euro.<sup>26</sup> The breakdown of the budget of the first post-accession development plan according to the source of financing is shown below (Table 5).

Table 5

#### *Allocation of public funds in the National Development Plan 2004–2006*

Funds	Total Public Costs	Of which ROP	The share of different funds in financing NDP	The share of ROP within public costs
	Euro, current prices			
ERDF related	1,463,500,000	388,660,000	43.6	27
CF related	994,100,000		29.6	
ESF related	473,100,000	3,160,000	14.1	1
Sub-total	2,930,700,000	391,820,000	87.0	13
EAGGF related	417,100,000		12.4	
FIFG related	5,900,000		0.2	
Total public	3,353,700,000	391,820,000	100.0	13

Source: Hungarian National Development Plan, March, 2003. 164.

<sup>26</sup>This was almost redoubled thanks to certain regrouping between sub-measures, and by 2006, 70 Local Action Groups (LAGs) had begun to operate. The objectives of LEADER+ largely overlaps with micro-scale regional development goals. This is a result of LEADER+ being a territorial programme. There are a number of direct planning/programming similarities which offer advantages to the disadvantaged settlements and micro-regions. With regard to LAG institutions and operational rules, LEADER+ has been ahead of regional development programming and implementation in such aspects as participative planning, tripartite composition of LAGs decision-making body, local project selection at LAG level, and programme-based finance.

The structures and its operational programme aimed at regional development are illustrated by the following figures (Figures 3–4).

Figure 3

*Objectives, priorities and Operational Programmes of the NDP 2004–2006*

<b>Long-term objective</b>	<b>Improving the quality of life</b>				
<b>NDP 2004–2006</b>	<b>Reducing income gap relative to EU average</b>				
<b>Specific objective</b>	More competitive economy	Improved use of human resources	Better environment and more balanced regional development		
<b>Priorities</b>	Improving the competitiveness of the productive sector	Increasing the development of human resources	Providing better infrastructure and cleaner environment	Strengthening regional and local potential	
<b>OP-s</b>	Economic Competitiveness (ECOP)	Agricultural and Rural Development (ARDOP)	Development of Human Resources (DHROP)	Environment Protection and infrastructure (EPIOP)	Regional development OP

Source: Hungarian National Development Plan 2003. March, 143.

Figure 4

*Priorities and measures of the Operational Programme for Regional Development 2004–2006*

<b>Developing the tourism potential of the regions</b>	<b>Developing regional infrastructure and the communal environment</b>	<b>Strengthening the regional dimension of human resource development</b>
1.1 Developing tourist attractions (ERDF)	2.1 Developing the accessibility of the regions and micro-regions lagging behind (ERDF)	3.1 Capacity building of local public administration and local NGO-s (ESF)
1.2 Developing tourism-related services (ERDF)	2.2 Regeneration of urban areas (ERDF)	3.2 Support for local employment initiatives (ESF)
	2.3 Infrastructure investment in pre-school institutions and primary schools (ERDF)	3.3 Strengthening co-operation of higher education institutions with local actors (ESF)
		3.4 Support of region-specific vocational training (ESF)

Source: Operational Programme for Regional Development 2003, 64.

### 2.2.2 *The participation of regions in programming*

As mentioned earlier, the Commission did not believe that the regional bodies had the capacity to plan and run operational programmes, even though, as we have seen, both the PHARE and the SAPARD programme had generated significant practical planning experience. Following initial delays in 2000–2001, central planning and operational programming speeded up in 2002 with the National Development Office and the Office of Minister for EU Integration without portfolio being given the task of creating the first National Development Plan. The programming tasks for the Regional Development OPs were delegated to an extension institution of the government, VÁTI.<sup>27</sup>

VÁTI planners were committed to including their colleagues from the seven regional agencies and the first version of the Regional OP had strong consideration of regional priorities. After the Commission rejected it, a second version was organised along subjects of development but sub-divided according to regional measures. This was also rejected with the same argument, namely, if any of the regions could not spend the allocated fund, they would lose the money because approval of fundamental modifications would take too long. A third version without any regional perspective as such was eventually accepted, including the provision to channel at least 75% to the four disadvantaged regions.

One of the leading planners of this ROP interpreted the process as follows:

“In line with the Commission proposal, we abandoned the minimal autonomy of the regions within the plan ... therefore the ROP was elaborated on a sectoral basis (thematic priorities and measures). This means that regions should come to a consensus concerning development objectives at the level of the programme. ... What has been left for the regions is the draw on priorities according to their special needs and to set up region-specific project selection criteria.” (*Wachter*, 2003, 3).

The technical assistance that was most appreciated by the Hungarian planners was helping them draw demarcation lines between similar support schemes in the rest of the OPs.

“Due to the overall reconciliation process with other OPs and the EC negotiating delegation, tourism, the protection of natural and built heritage as well as programmes related to public administration reform became strong pillars of the ROP”. (*Wachter*, 2003, 3).

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<sup>27</sup> VÁTI Hungarian Public Nonprofit Company for Regional Development and Town Planning. VÁTI worked as managing authorities for Phare programmes aimed at regional development during the 1990s. This was the basis on which it continued to fulfil the tasks of managing authority and intermediate body in the post-accession period. For these purposes a separate section was established within VÁTI called National Agency for Regional Development.

In line with the cohesion purposes of the ROP, and despite the centrally organised management, 82% of the final total was spent on a semi-decentralised basis. This means that the budget was distributed prior to the start of the implementation. It was informal in the sense that indicative regional allocations were neither in the ROP nor in the Programme Complement. They did exist though and were monitored by the Managing Authority (MA). The following allocation of resources is based on recalculations from a progress report document produced by the Managing Authority in Spring 2006 (*Table 6*).

Table 6

*Allocation of funds under the 2004–2006 ROP*

Hungarian Regions	Semi-decentralised funds of the ROP 2004–2006, Euro	The distribution of funds among the Hungarian regions 2004–2006, %
Northern Hungary OP	87,821,044	22.4
Northern Great Plain OP	84,313,725	21.5
Southern Great Plain OP	59,490,196	15.2
Southern Transdanubia OP	64,078,431	16.3
Western Transdanubia OP	29,411,765	7.5
Central Transdanubia OP	35,686,275	9.1
Central Hungary OP	31,372,549	8.0
All regions	392,173,985	100.0

*Source:* A Regionális Fejlesztés Operatív Program... (2006).

Transdanubian planners as well as high-ranking staff members of the RDA were unhappy with the long uncertainty concerning their role to be played in programming. They were disappointed by the decision that did not allow a decentralised ROP implementation. Nevertheless, they invested a lot in the ROP programming, providing VÁTI planners with regional inputs when the first two drafts of the programming document were formulated. When the third region-neutral version was accepted, they felt that their efforts had been wasted. One leading planner complained that “We worked a lot but in the end almost nothing was taken into consideration from our inputs.”<sup>28</sup> At the same time he did appreciate the fact that 75% of ROP funds were allocated to the four disadvantaged regions and that Southern Transdanubia was successfully “squeezed” into this group of beneficiaries.

From the point of view of programming, the planners in the South Transdanubian RDA saw little sense in the Regional Actions Plans (RAP) proposed as a

<sup>28</sup> Development Director of the Regional Development Agency.

complementary document. According to the RDA development director, “We had to make the RAP ... It turned into a rather patent absurdity to seek for regional aspects to an intact central plan having no regional dimension.” In a later phase, when project selection was carried out by the RDA, these action plans were used as means of scaling: premium scores were given to those projects that were partially developed in the RAP but non-existent in the ROP. Discontent with the central management was also reflected in the partnership consultations. Regions “deemed it necessary that they should be integrated into ... implementation” (...) but “partners missed the involvement of county regional development councils and local governments and organisations into the process of planning and consultations ...” (Hungarian National Development Plan, March 2003, 14).

### **2.2.3 Implementation**

Regional Development Agencies were included in the implementation procedure. They shared the management of project proposals with the VÁTI National Agency for Regional Development (VÁTI NARD)<sup>29</sup> as Intermediate Bodies. The tasks of the RDAs were as follows (*Operational Programme for Regional Development 2003*, 122–123):

- Publicity and information provision in the application phase;
- Register applications;
- Assess project proposals;
- Advise the beneficiaries in the process of project-development and implementation;
- Fulfil the obligation of regular reporting to the managing authority;
- Prepare regional analysis;
- Participate in the on-the-spot supervision of projects;
- Carry out information services.

The tasks of the VÁTI NARD were

- Assisting the MA in preparing the Programme Complement Document;
- Checking the eligibility and quality of project proposals assessed by RDAs;
- Managing grant proposals;
- Monitor the performance of final beneficiaries;
- Operating an internal control unit;
- Recording the relevant implementation-related data ... in the IT system;
- Producing the programme-level draft of semi-annual and annual reports;

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<sup>29</sup> Within this section of the VÁTI a sub-unit was established for managing authority and intermediating body functions within the procedures of programme implementation.

- Continuous reporting obligation to MA;
- Operation of a system for the management of irregularities;
- Performing information tasks.

From the RDA task list, the Agency valued project assessment most of all. As mentioned above, Regional Action Plans were important in project selection: 20 points from 100 could be granted to projects that were most wanted by the evaluators. This was seen as a space for manoeuvring given in exchange for the loss of the decentralised ROPs; if they wanted, they could use the 20 RAP scores to over-write centrally compiled selection criteria.

Of course, practice also opened up a space for political clientilism, something that was judged by key actors in different ways. Two RDA directors thought that it happened rarely and was kept at a “manageable level”. This was echoed by one member of the RDC; two other council members said that they did not hear about such cases, while another RDC member responded “I do not want to tell a lie, it is better to say nothing”. The latter respondent would have preferred project management accomplished at the central level, that, according to him, would prevent clientilism and corruption more effectively than decentralised selection.

Assessed and ranked projects were checked by VÁTI NARD and forwarded to the centrally operating “Project Selection Committee” which advised the Managing Authority. The head of the MA chaired this selection committee with members delegated by relevant ministries and by the regions themselves. “Regional commissioners”<sup>30</sup> participated with voting rights, while project managers of the RDAs provided background assistance. The final decision on project selection was taken by the head of the MA.

If we consider the absorption capacities of Southern Transdanubia as an index of success, then in comparison to the pre-accession levels, the results are modest. At the level of projects, Southern Transdanubia used almost all of the ROP funds (14%) according to the original design (16.3%). As a reflection of the importance of agriculture, projects attracted funds in a similarly high proportion (15%). Otherwise, the region’s achievements could be graded as fair in case of the Human Resource Development OP. The same can be said for its fund absorption capacities in the Economic Development OP but only if we compare it with Southern Transdanubia’s contribution to the Hungarian GDP (the two figures are identical, 7%). To put in another way: the weak regional economy was unable to attract more resources than its potential allowed. Figures of the regional

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<sup>30</sup> Regional commissioners, seven in number, were appointed by the government, one for each region. They were members of the regional development councils and represented „their” regions interests at central level organisations of regional development such as the ROP Project Selection Committee. Their position was cancelled in 2006 as part of the re-organising public administration.

distribution of the Transport and Development OP indicate the disadvantageous position of Southern Transdanubia as compared with the other lagging regions of the country: its share was as little as 6% regarding successful projects, and 4% considering the attracted funds. *Table 7* shows the result of the competition between the regions in attracting EU funds close to the end of the first post-accession programming period.

#### ***2.2.4 Evaluation and Monitoring***

The implementation of the ROP was not evaluated by any independent organisation. Instead, in April 2006 the MA made an intermediate report titled “The preliminary evaluation of projects contracted within the framework of the ROP”.<sup>31</sup> Programme monitoring has been safeguarded via the ROP Monitoring Committee, which was established along the 35(3) of EC Regulation no 1260/1999. The most important members of the MC were as follows:

- MA (heading the MC);
- Delegates of ten interested ministries (10 persons);
- Representatives of the regions (7 persons);
- Representatives of social partners (the delegates of 6 NGOs);
- CSF managing authority;
- Paying authority (Ministry of Finance, NAO Office Dept.);
- Financial Control Department of the Ministry of Finance;
- Government Control Office;
- European Commission;
- European Investment Bank.

We close this sub-chapter with two remarks: first, the establishment of regional monitoring committees was not initiated by the delegates of the regions; second, as was the case with other MC-s from other OPs, the representatives delegated by government organs were assured of a majority position, which inhibited any minority opinion from effective opposition to government plans.<sup>32</sup>

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<sup>31</sup> The +two years for project implementation have not yet expired, therefore the ext-post evaluation is a matter for a future exercise.

<sup>32</sup> Analyses about the operation of MC-s were provided by a 6<sup>th</sup> framework research called Dioscuri, coordinated by the CEU (*Kovács – Rác – Schwarcz, 2006*).

**Table 7**  
**Absorption capacities of post-accession co-financed funds by regions**

### 2.3 The 2007--2013 programming period: centrally managed sectoral programmes and regionally managed ROPs

The preparation for the second budgetary period began in December 2004 as part of the “Europe Planning” process regulated by Government Decree.<sup>33</sup> As mentioned earlier there were several innovations in this round of planning. The National Development Concept (NDC) and the National Spatial Development Concept (NSDC) were formulated and thematic working groups were established at both central and regional level. These working groups were not only frameworks for planning; they helped process experiences from the first Hungarian National Development Plan. Within this framework, the New Hungary Development Plan was developed at more grassroots regional levels. Lower-ranking actors ranging from NUT II to NUTS IV levels participated and, at the central level, the working groups offered chances to channel the messages and lessons gathered from the regional working groups.

In Southern Transdanubia, the RDA elaborated its strategic development goals which were subsequently approved by the Council in April 2005. The strategic goals were that:

1. Southern Transdanubia should become a “model region” with a high quality environment
2. The economy should become competitive on the basis of endogenous development potentials
3. Strong social solidarity should help halt demographic erosion.

These goals represent a shift from traditional conceptions of development based on productive industries and external investment to a paradigm that favours non-productive industries and internal potentials. The NSDC planners accepted this approach with only slight modifications<sup>34</sup> fixing them in the New Hungary Development Plan. Therefore, in this case, the bottom-up process was clearly present. (For a diagram of the structure of the planning web, see *Annex 2*).

A second peculiarity of the South Transdanubian programming phase was the six sectoral strategic development concepts. These were supposed to embrace the most important development fields such as tourism, human public services, public transport. These strategic documents went beyond the scope of the ROP, and also beyond the EU-financed measures of the sector OPs (*Márton*, 2005, 62). The exercise was carried out by six different consultancy agencies who were in continuously consultation with members of background networks at various work-

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<sup>33</sup> 1076/2004. (VII. 22.) Government Decree on the Elaboration of Frameworks and Contents of Europe Plan (2007–2013).

<sup>34</sup> The strategic goals were broken down to nine „thematic goals”.

shops and regular meetings. The majority of the consulting agencies involved were from outside the region, the only one to come from the region was Hozam Ltd., although other local consultants did work as subcontractors. Micro-regional associations were also part of this network and their most significant contribution was to collect and prioritise potential projects within their own areas. By September 2006, more than 3000 projects were mediated from the micro regional level via these thematic units towards the RDA. The RDA selected the ‘big projects’ which were subject to different forms of tendering.

When trying to find references to Southern Transdanubia in the New Hungary Development Plan, an interesting connection can be made. Regional developers are allowed to implement “post-modern” strategic goals that rely on limited resources allocated from above. By contrast, the Centre follows a modern paradigm of developing sub-centres or development poles, working on major transport roots and “the capital attractiveness of Eastern Hungary and Southern Transdanubia” (New Hungary Development Plan 2007–2013, 83.). Is the strategy of Southern Transdanubia and the similar strategies of the other three lagging regions the luxury of the poor? At least to a certain extent, this seems to be the case.

One other component that influenced the regional planners’ views was the path dependency that was generated by the last PHARE programme and the first ROP. In those programmes, tourism and the natural and cultural heritage were the focus points of development activities. As seen above, the pro tourism measures were strengthened in the ROP by the reconciliation process with the rest of the OPs. With significant EC assistance, tourism and heritage preservation were “delegated” to the ROP and the demarcation lines drawn accordingly. Needless to say, this path dependency shows itself up clearly in the choice of thematic groups.

The thematic lines of the decentralised ROPs were established by the VÁTI NARD based on the precedent of the first ROP and level of decentralised funds foreseen. In a regional scale, the following themes were set out:

- The development of the regional economy and the tourism industry
- Developing infrastructure and the built environment (settlements)
- Thematic development programmes (aimed for example at developing backward rural areas.)

Relying on the sub-measures of the VÁTI guideline, the South Transdanubian ROP was approved by the Commission in April 2007 with the following priority axes (*Table 8*).

Table 8

*Priority axes of the ROP for Southern Transdanubia*

Promotion of economic competitiveness on the basis of development of urban spaces
Strengthening tourism potential
Development of human public services
Support of integrated urban development actions
Improving accessibility and environment
Technical assistance

Source: Dél-dunántúli Operatív Program, 2007.

**2.3.1 The programming phase**

Programming for the 2007–2013 budgetary period started in mid 2004 and ended in December 2005 when the National Development Concept (NDC) and the National Spatial Development Concept (NSDC) were accepted by Parliament. Programming for the New Hungary Development Plan speeded up in 2006 after these two accepted concepts. At the end of the planning period, the thematic WGs were dissolved, and operational programming took place in the regions themselves. For the sectoral Ops, this was handled by the extension ministerial institutions and the consulting companies, with overall co-ordination coming from the National Development Agency. At this stage, various ex ante evaluations, conferences, and ad hoc consultations helped facilitate information exchange between various fractions of planners, co-ordinators and expert groups with social consultation counting as the final step. With seven sectoral, seven regional and one Implementation OP, the New Hungary Development Plan was approved by the Commission in May 2007. The content, structures and funding are indicated by *Figure 5* and *Table 9*.

*Table 10* indicates two new European funds for developing the agricultural and fishery sector and enhancing rural development. This is in spite of the separation of the cohesion-related funds from the agricultural and fishery related funds. As elsewhere, these latter funds have to be “programmed”; therefore, two separate programming documents were developed in 2006–2007. In the first period, these were developed from the Guidance sections of the European Agriculture Guidance and Guarantee Fund and Financial Instrument for Fisheries Guidance. In the new programming period, the new European Fishery Fund and the European Agricultural Fund for Rural Development (EARFD) channel together 3 840 million Euro to the relevant sectors of the economy and public services. The Fishery Strategic Plan has a spending target of 34.3 million Euro while the New Hungary Agricultural and Rural Development Programme have 3,806 million Euro from

the EARFD. The subdivisions and the finance of the latter are indicated in the table below.

The most important points are as follows: 988.5 million Euro, or 19% of the total budget is for those parts of rural economy and services that are not connected to agriculture. As compared to the 11% rate in the first draft, this significant increase is the achievement of the non-agricultural lobby groups and social partners who jointly expressed their discontent during the social consultations of the first two drafts of the programme.

Figure 5

*Objectives, priorities and Operational Programmes of the NHDP 2007–2013*

<b>Broad objective</b>	<b>Increased employment and promotion of long-term growth</b>		
<b>NHDP 2007–2013</b>	<b>Improving employability and activity</b>	<b>Permanent growth</b>	<b>Horizontal policies</b>
<b>Specific objectives</b>	Improving the employability	Improvement of competitiveness	Ensuring the conditions for sustainability
	Increasing labour force demand	Broadening the foundation of the economy	Strengthening cohesion (in economic, regional and social terms)
	Development of labour market development	Developing the business environment	
<b>Priorities</b>	Economic development		Social renewal
	Transport development		Environment and energy development
<b>OP-s</b>			Regional development
			State reform
	Economic Development OP	Transport Development OP	Social Infrastructure OP
			Social Renewal OP
			Environment and Energy OP
			Electronic Public Administration OP
			State Reform OP
		Regional OP-s of cohesion regions	
		Central Hungary OP	

Source: Compiled from the New Hungarian Development Plan (2007, 59–74, 135).

Table 9

*Indicative financial allocation of the New Hungary Development Plan 2007–2013  
by financing funds*

EU funds + National contribution	2007–2013			Total 2007–2013
	Convergence regions	Out of which ROP allocation	Central Hungary	
ERDF	11,106,124,925	4,304,318,100	1,543,618,907	12,649,743,832
ESF	3,141,629,950		487,458,601	3,629,088,551
CF	8,642,316,217			8,642,316,217
Sub-total	22,890,071,092	4,304,318,100	2,031,077,508	24,921,148,600
EAFRD	3,805,843,392			3,805,843,392
EFF	34,291,356			34,291,356
Total	26,730,205,840	4,304,318,100	2,031,077,508	28,761,283,348

Source: New Hungary Development Plan 2007, 135–136.

Table 10

*Indicative financial plan of the New Hungary Agricultural and Rural  
Development Plan 2007–2013 (HUF)*

Development Themes	Central Hungary	Convergence Regions	Total
	EAFRD + National Co-finance		
Axis I: Improving the Competitiveness of the Agricultural and Forestry Sector	313,779,580	2,115,106,801	2,428,886,380
Axis II: Improving the Environment and the Countryside	209,985,419	1,459,690,302	1,669,675,721
Axis III: Quality of Life in Rural Areas and Diversification of the Rural Economy	91,584,964	617,350,501	708,935,465
Axis IV: LEADER	35,157,376	244,392,592	279,549,969
Technical assistance	–	208,340,005	208,340,005
Total	650,507,339	4,644,880,201	5,295,387,540

Note: Exchange rate of 1 Euro = 265 HUF.

Source: Compiled from the tables of the New Hungary Agricultural and Rural Development Plan (2007, 259–260).

The present 19% share of non-agricultural sub-budgets is roughly the same as in the first post-accession period.<sup>35</sup> Beyond Axis IV, which covers the “mainstreamed” LEADER with a heavy territorial development accent, public service small-scale investments for those micro-enterprises employing less than 10 employees with limited turnover, are now covered from this programme. Out of the Technical Assistance budget, a network of so-called Rural Development Bureaus will be developed for advising and co-ordinating work.

Surprisingly, the NHARDP completely ignores regionalism. Regions have no chance to influence either the programming or the implementation. Connections with spatial policies are restricted to certain advantages offered to project proposals coming out of the so-called lagging micro-regions.

Continuing with the Regional OPs, the distribution of the total of 4,304 million Euro allocated for financing was worked out bearing in mind the following weighted features of the regions:

- Population number 20%
- The number of settlements 10%
- Unemployment rate 20%
- The number of population living in disadvantages settlements 10%
- The development rate of regions 40%

The distribution of the total sub-budget for implementing the Regional OPs, then the share of decentralised instruments within the total budget of the first and second development plans are indicated below (*Tables 11–12*).

What is worth mentioning is that these figures reflect the unchanged policy goal of decreasing regional disparities. There are only minimal changes regarding the shares of cohesion regions from the total of ROP funding; in our pilot region, for instance, the change is +0.1%. Central Hungary, the only phasing out region receives much more than between 2004–2006 for implementing its OP, but beyond the 76.4 million Euro allocation within the Electronic Public Administration OP, no other ERDF resources will be available for this region.

If we consider the weight of ROP funding within the entire budget of the national development plans as indicated in *Table 12*, a slight decrease can be identified between the two periods (from 25% to 23% including Central Hungary). Tendencies within the ERDF allocation moved in the opposite direction with the proportion of decentralised funding grew substantially.

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<sup>35</sup> Rural infrastructure has been regrouped under Axis I; therefore, axes are not compatible with the former priority axes of ARDOP. In the latter, rural infrastructure belonged to the group of rural development measures reaching together 23% from the total ARDOP budget.

### 2.3.2. Implementation: lessons learnt and used

At the end of June 2006, 100.92% of the allocated Structural Funds had been covered by the approved projects, out of which 88.25 % was contracted and 21.37% paid by invoice. The total spending rate was 33.2% in case of Structural Funds and 19% for Cohesion Funds, illustrating the origin of the short-term net deficit of incoming EU money and the membership contributions. The wide gap between accepted and contracted projects was not only attributable to EU financial rules, but the complicated procedures for applying, processing and evaluating project proposals. In all, there was a 280-day time span between handing in and contracting successful applications (Cséfalvay, 2006, 293). A considerable simplification was introduced for low-budget projects for the 2007–2013 period. Some modifications aimed to speed up and ease processes had already been applied from 2005–2006 (such as advance payments up to 25%, decreasing the number of certificates etc.). In case of Cohesion Fund spending the lack of sectoral strategies and the low preparation level of projects were highlighted in the New Hungary Development Plan as factors causing delays in implementation.

Table 11

*Indicative financial allocation plan of the regional operational programmes  
2007–2013*

Hungarian Regions	Regional Ops 2007–2013, Euro	The distribution of decentralised funds among the Hungarian regions	
		100% = Conver- gence regions	100% = All regions
		2007–2013	
Northern Hungary OP	903,723,589	21.0	15.7
Northern Great Plain OP	975,070,186	22.7	16.9
Southern Great Plain OP	748,714,608	17.4	13.0
Southern Transdanubia OP	705,136,988	16.4	12.2
Western Transdanubia OP	463,752,893	10.8	8.0
Central Transdanubia OP	507,919,836	11.8	8.8
Central Hungary OP	1,467,196,353		25.4
Convergence regions	4,304,318,100	100.0	74.6
All Hungarian regions	5,771,514,453		100.0

Source: New Hungary Development Plan (2007, 200.).

**Table 12**  
**The share of decentralised development instruments in the first**  
**and second national Operational Programmes**

The other changes did not relate directly to experience gained from the implementation of the HNDP. Rather they were the result of the much more demanding tasks in managing the New Hungary Development Plan. The new “central panel” of top management of EU affairs within the National Development Council (headed by the Prime Minister), the Development Policy Steering Committee also chaired by the Prime Minister and the commissioner delegated to the National Development Agency were attacked by the opposition parties as an unprecedented concentration of power over development resources. Others objected to the development of parallel structures arguing that it is more expensive, makes parliamentary control more difficult and slows down the adaptation process of the central administration to European standards.

The government argued, that the central management of the OPs was chosen as a way to increase efficiency and transparency. The managing authorities have been brought under the umbrella of the National Development Agency, although in practice they operate as independent departments. Also, the “1 OP = 1 MA” principle was followed. The seven Regional OPs are managed by one Managing Authority and monitored by two Monitoring Committees, one for the convergence regions and one for Central Hungary.

As far as the Intermediate Bodies managing Regional OPs are concerned, the division of tasks between the VÁTI Public Nonprofit Company and the RDAs, is also changed. In the new phase, the VÁTI Operation and Programme Management Directorate is responsible for dealing with improving human resource infrastructure, while the RDAs manage the rest of the measures, from collecting to contracting applications and verifying their implementation.

Feeling that they were prepared for implementing the task fully, the RDA people were disappointed by this division. They viewed the sharing of duties as a compromise in the struggle between regional actors interested in expanding their competencies, and central institutions defending their positions. Nevertheless, these changes do demonstrate a considerable increase in the importance and prestige of RDAs as a natural counterpart of the decentralised implementation of the regional OPs well illustrated in a remark of the development director of RDA filled with pride:

“The path the agencies went through is really something! These agencies came into being out of nothing a few years ago, and now they are handling 107 billion HUF from the start to the end of the ROP, everything apart from the human infrastructure projects! It is true that we have to make cross checking with the Managing Authority, but ... I cannot really say that they press anything down our throat.” (Development Director, RDA May 2007).

Finally, two “complex programmes” represent another important innovation in the 2007–2013 period. Reflecting the needs of the “subjects” and the complicated structures of the funding resources (15 OPs within the NFDOP plus 4 axes of the NHARDP) these programmes were aimed at safeguarding programme-implementation in a co-ordinated manner. Both of them have spatial relevance, and, paradoxically, they are targeting spatial extremes: one of them is aimed at the Development Poles (that is, regional centres), whilst the other their spatial opposites, the least developed 33 micro regions.

### **3 The implementation of regional policy in Southern Transdanubia: empirical evidence**

This section draws on some of the results of the Social Network Analysis and the interviews that accompanied the questionnaire.<sup>36</sup> It also includes material gathered from participative observation on some of the planning meetings. Altogether, twelve interviews were performed with regional actors and with one leading personality within the National Development Office.<sup>37</sup> It should be noted that local elections took place in October 2006, greatly changing the composition of regional policy-making. From the original 19 RDC members in South Transdanubia, only five remained “in office”. For the first time, however the political changes did not generate subsequent changes in the leadership of the Regional Development Agency.

Most of those interviewed were satisfied with the growing influence of the region. This was especially the case with the chance to plan and implement the ROP for the first time. The achievements of the pre-accession and post-accession periods were rated positively and regarded as the result of a relatively smooth institutional and professional adaptation. Criticisms were limited to the growing burden of bureaucratisation, which slows down processes and makes access to funds more difficult. Also, the language used within the EU development process was deemed inconceivable not only for the general public but also the “*ordinary village mayor*”.

“Complexity, organisational and language hodgepodge were really difficult to follow; most of the mayors do not have a clue what the director of the Agency was talking about” (Chair of the County Development Council of Tolna, 2006. August).

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<sup>36</sup>This part of the research was lead by Endre Sik. The authors are grateful for the access to data drawn from questionnaires of the Social Network Analysis.

<sup>37</sup>Two interviews were conducted by Alexandra Szőke, two were transmitted in a written form by the respondents who received the interview schedule earlier, and eight were made by Katalin Kovács who also observed the council meetings.

To go more in depth in the subject we start with some of the results from the SNA and then we concentrate on the material gathered from the interviews (*Table 13*).

Table 13

*Criticisms of former EU co-financed projects*

Critical remarks	% of agreeing respondents
Excessive administration	68
Funds available only in part or after a delay	53
General approach unfamiliar	32
Conflict of interests	26
Slow pace of programme implementation	26
Not enough local/civil participation	18
Inappropriate political influence	18
Lack of institutions necessary for implementation	13
Insufficient fully qualified or trained staff	11
Mandatory financial reserves set at a too high rate	11
Poor selection of partners	8

*Source:* Authors' construction based on SNA.

As regards the degree that the ROPs might lead to the longer-term enhancement of bureaucratic capacity, and more effective and efficient partnership, the majority considered that community-building among the stakeholders and EU-learning were the two key results of the programme implementation. A senior member of the RDC, for example, stressed how

“the good results from Tolna are not only thanks to our coordination work; we regularly met with the supervisors of the micro-regional agencies, the leaders of associations, and, in our case, that bore fruit.” (Chair of Tolna County Council, member of the RDC, 2006 September).

On the other hand, there was a sense that the principle of partnership was not always appreciated.

“Real partnership is still lacking..., but it is also true that there are only few actors, and hence, civil control is also weak in such a situation. Additional support is certainly needed, concentration, for the time being doesn't work, but it has to be forced by reforms from above.” (Member of the RDC 2006 September) (*Table 14*).

Table 14

*The influence of EU co-financed pre and post-accession projects*

Fields of progress	% of respondents agreeing
Strengthened partnership	76
Assisted the introduction of new norms of spending public funds	68
Assisted access to resources	58
Strengthened civil participation	34
Stimulated institutional adaptation	29
Increased the standards of administration	16
Stimulated legal adaptation	13
Strengthened competition in the spending of public funds	8
Decreased (moderated) political influence	3
Accelerated implementation, increased efficiency	0

*Source:* Authors' construction based on SNA.

Despite the serious development problems in Southern Transdanubia, the majority of members in the policy network ranked partnership as paramount, more important than “securing development funds”. The “strengthening of civil society” was in fourth place and below that was the view that “EU projects stimulated and enhanced institutional adaptation and reform”.

When self-criticism was formulated, the weak lobbying ability of South Transdanubian politicians was mentioned. This explained why the most important investment of the motorway between Budapest and Pécs was always ranked low on the priority list of centrally financed projects. Certain internal conflicts between the players of the three counties belonging to the region can also be identified. This is illustrated by council members' contributions to a September 2006 general assembly of the RDC. At this meeting, the Commissioner in charge of the Second National Development Plan attended accompanied by the Minister of Regional Affairs, the chair of the Parliament and two Secretaries of States. This was part of the overall consultation process, which became one of the essential points of the programming process. It was introduced as a strong demonstration of a new approach towards regional planning, including the participation of interested parties, and dialogue between planning agencies at different administrative levels. In this meeting, the aim was to exchange information about the content of the centrally planned OPs and the regionally planned ROP. There were particular references to “big projects” which, whether at the national or regional level were not selected within the normal open tendering process. The Commissioner offered a Powerpoint presentation on the latest structure of the overall plan, and then listened to the politicians of the region, most of them also MPs. Two of the three

county representatives agreed that the motorway was the first priority, while the third county representative did not mention it at all. Such differences were also apparent in the interviews. The representation of narrow interests meant that not only were their own urban/rural problems voiced, but usually the speaker did not represent his or her role in the RDC but only as the mayor of a particular town or settlement.

“This region can never develop into a cohesive region if there are no regional commitments, but instead what everybody wants to do is to save as much from the regional sources for his own settlement / micro-region as possible.” (Member of the Spatial Planning Web, representing one of the county seats, April 2007).

A similar complaint was voiced by the Chairman of the Development Council in August 2006 reflecting the uneven capacities and interests in complying with regional development planning requirements. Despite the frequency of ties and the strategic nature that many ascribe to their relations, there were still strong disconnections in terms of role perception on the side of the planners and the politicians, the sequencing of actions and the co-ordination of interventions. The quotation illustrates the paradox by which local representatives of the central government could be advocates of particular local interests on the RDC. In other words, the local and the central government interests could equally override the weakest “regional interest” not only one by one but also “one in the other” and at the same time.

“Regions could plan with the appropriate autonomy; there is no problem with that. As regards the actual design [of the ROP], the problem is not with the mechanisms, but with the heads. There is a problem with the designers; their professional ideas usually don’t let social viewpoints prevail, they don’t take into account that development does not come about in a sterile laboratory. However, on the other side there is not enough ability for abstraction, for empathy, and readiness for compromise. Politicians, who participate in regional decision-makings, want to build their own houses. Let’s say, for example, if the Home Secretary is represented by a mayor of X city, that mayor won’t talk on behalf of the Home Secretary, but according to the interests of his/her town.” (RDC chairman, August 2006).

The member quoted earlier blamed the lack of any real regional identity for the absence of region-conscious decision-making. He also criticised planners from another angle. He claimed that instead of developing a genuine, regionally tailored development strategy, the South Transdanubian planners brought about nothing but “a national plan at a regional scale”. Some dissatisfaction was re-

flected in the opinion of those who were in charge of implementation. Being part of the complex negotiating exercise with many actors, the top managers of the RDA clearly saw the narrow path of autonomous manoeuvres.

“The ROP is not the development programme of the region. It is rather a collection of menus offered for selected fields.” (Executive manager, RDA, August 2006).

“At the end, the ROP came into birth within the frame of sectoral negotiations; so in fact, it is a sectoral programme ... what the rest of the OPs did not absorb.” (Development Director, RDA, May, 2007).

Nevertheless, the same respondent judged the position of regional planning “incomparably better” than ever before. He regarded bottlenecks as natural consequences of the uneven progress regionalism had achieved in the country: “... the wagon cannot go faster than the horse” – he said – “it will be different once we will have elected regions”.

People did not complain about the limited autonomy of the planning procedure. With some exceptions, they by and large agreed with the control from central government and the European Commission on programming and implementation. The chairman of the RDC being in office since December 2006 raised the issue of shared control between government and the regions over processes, others pointed to the determining force of the procedures themselves:

“The ROP as well as the Action Plan were under strong central coordination ... The National Development Agency ... put forward its priorities and required adherence to the frames set. In the case of certain measures, due to the division of labour with the sectoral Ops, it became necessary to comply with the OPs. This kind of planning mechanism can narrow regional competencies.” (Chairman of the Somogy County Council, member of the RDC, April 2007).

The development director of the Agency in charge of programming reacted similarly when he was asked about the role of the EU in influencing the content of the ROP. He said:

“The EU insists that we should spend as much on the economy as possible, but how, if SMEs are under the Economic Development OP? It was with tourism, where they suggested that we should allocate less there ... but it stayed almost at the same level. ... Regions saw the possibility of breaking out on the basis of tourism...”

The ambiguity of the presence of central–local influence in the ROP process is reflected in the table below, ranking the participants in the social consultation process according to the status of the actors. The figures could be interpreted as

indicators of the actors' keenness to use all possible opportunities to express their consent or opposition. For example the lack of any remark from the side of Chambers of Commerce does not mean that they did not participate in other forums of social consultation, let alone that they were members of the planning web. However, the Somogy actors' intensive participation is indicative as is the influence of the central agents and agencies. The weak position of the local NGO sector also tellingly comes through from the prevalence of remarks coming from central NGOs (*Table 15*).

The majority of respondents thought that the ROP would eventually lead to better future relations amongst the different partners. There was no expectation that it would transform the importance of politics within regional development, as regards the local actors, but also between the central state and the regional bodies. Almost none of the participants believed that the ROP and attendant reforms would diminish the importance of politics in the distribution of funds and influence. A mayor from one of the larger towns in the region declared that

“Regarding the re-politicisation of this Regional Development Council, there is a fear of corruption. Those times, enterprises had much more opportunities, I know it personally, that the second proposal was denied due to political reasons. However, it would be better if decisions were made on a professional basis. This division of resources doesn't work, although, dividing the resources justly is virtually impossible” (Member of the RDC, September 2006).

This council member would have favoured a centrally operating Intermediate Body for the forthcoming ROP.<sup>38</sup> Other regional actors expressed fears and frustrations in relation to the influence of the central state over regional matters. Perhaps in reflection of the developmental importance of improving the road network in this region, re-centralisation tendencies were criticised heavily:

“... Regional concentration is developing, on the other hand, but so is a remarkable re-centralisation. ... I think that this kind of centralisation is an absolute insanity which happened to the concentration of public road maintenance last year, which degraded county transport corporations into work units, and all substantive decisions and preparations were concentrated at the Ministry of Economy and Transport. It's a nightmare for me – due to my motorcycle craze, knowing all roads, with and without potholes – to imagine that the decision about the reparation of roads would be made in Budapest. This is a typical regional issue. ... To my mind, we are in an important moment, regions

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<sup>38</sup> As it was mentioned earlier, the task was finally shared between the local (regional) and central actors.

**Table 15**  
**Participants in the social consultation of the ROP in Southern Transdanubia**

will be developed in terms of legal rights, as well. However, this makes sense only if regions are given responsibilities and sources...” (The chairman of the RDC, August 2006).

In terms of the influence of different parties, among the network members there seemed to be relatively equal weighting of the power of the region and the power of the central state in terms of planning the ROP. According to the respondents, regional actors were ranked as having the highest influence in regional development (more than 60% of the respondents gave 8 or higher scores on a scale of 10), followed by the central government and then the European Union. With 1 being weak and 10 being strong, the average level of influence of the region and the government was 7.73 and 7.16 respectively, whereas the EU was assessed as at 5.71. Relations and influence is seen in a bifurcated way. While there is no correlation between the estimated level of influence of the region and the other two actors, there is a strong positive correlation (0.73) between the level of estimated influence of the government and that of the EU. In sum, in the stakeholders’ view the region is always influential, with the government and the EU much less so. At the same time, if any of them is influential the other one is influential as well and vice versa.

If we widen the discussion of relative influence to non-state actors, then it appears that the various business actors in the region are considered more important than the European Commission. At the same time, in most participants’ eyes, the Commission ranks above local civil society organisations (*Table 16*).

Table 16

*Estimated level of influence in regional development*

Actors	Influence
Government	7.97
South Transdanubian Regional Development Council	7.18
South Transdanubian Regional Development Agency	7.18
Business actors in the region	6.50
European Commission	5.45
Civil organisations	5.06

*Source:* Authors’ construction based on SNA.

An analysis of the correlation between the estimated influence of various stakeholders showed a positive inter-correlation (between 0.40 and 0.52) among the two regional development organisations’ business and NGO actors.

The respondents were asked how they would rate the overall ROP process. With 1 point for being very unsatisfied to 10 for being very satisfied, the level of

success of the ROP planning and the implementation was rather high (6.81 and 6.44 respectively). An analysis of the correlation between the levels of estimated influence and the satisfaction with the final ROP is rather telling. Those who tended to identify the government as the most influential partner in the ROP were more satisfied than the average, while those who viewed the EU, or the two non-state sectors as being the most influential tend to be less satisfied with the final outcome than the average (*Table 17*).

Table 17  
*Correlation between the level of influence and satisfaction  
(correlation coefficient)*

Actors	Planning	Implementation
EU Commission	- 0.20	-
Government	0.20	0.19
South Transdanubian Regional Development Council	-	0.18
South Transdanubian Regional Development Agency	-	-
Business actors of the region	- 0.18	- 0.24
Civil organisations	- 0.28	- 0.31

Correlation coefficient is less than 0.15.

*Source:* Authors' construction based on SNA.

Interviews reflected a similar level of satisfaction with the programming process as completed by the Regional Development Agency. Respondents appreciated the efforts made to mobilise as many actors as possible, and thus suit the programme elements as much as possible to the regional needs and absorption capacities.

“I think that the Agency has ... lived up to the role that was required, and mastered well the organisational and ... mediatory tasks ...” (Council member representing the micro-regions of Somogy, 2006 September).

“... The ROP of Southern Transdanubia is indeed a programme that was developed from below, what we only talked about before, materialised here ...” (Chairman of the Tolna County Council, member of the RDC, April 2007).

When critical remarks emerged, they related to the extent that economic actors were mobilised. The weak results were explained differently, one respondent blamed the Agency and its weak links to the economic sector, another considered that it was due to the moderate activity of the county chambers of commerce, with the exception of Baranya County. We also have to add that the ROPs were not

that important as far as the economic sector was concerned; due to the demarcations, the entrepreneurial sector would be supported principally within the framework of other OPs.

#### **4 Consequences – successes and failures in post-accession regional policy-making**

The first post-accession experiences on regional policy implementation have been mixed. The country's deep financial crisis and the mounting budgetary deficit in 2006–2007<sup>39</sup> show that the incoming EU funds were not sufficient to counterbalance the negative processes prevailing in the wider economic and social environment, in contrast, they could even worsen the situation in the short run. Analysts call attention to the fact that in the first post-accession years, the balance of the membership payment (1% of the GDP) and the channelled grants is inevitably negative. The EU practice of supporting projects is to advance very little money and then offer reimbursement to an extent determined by the support intensity rate. High administration costs have been critically mentioned as has the manner of creating the chief institutions dealing with EU issues. Some argue that institutional adaptation has been slowed down because of the concepts that institutions dealing with EU issues have followed. In other words, rather than organise from or within existing administrative units thereby acting to “Europeanise” the chief organisations of public administration, new institutions were created beyond these units (*Cséfalvai, 2006*). The same author warns that since 2003, Hungary dropped from the 33<sup>rd</sup> position on the “competitiveness list” of the Swiss Institute of Management Development to the 41<sup>st</sup>. This does not seem to be in line either with the objectives of the first NDP nor with that of the second.

Ádám argues that the unprecedented budgetary deficit is a consequence of the weak social embeddedness of institutions. The lack of effective control by social actors over government spending is a direct legacy of socialism (*Ádám, 2006*). Following Broadbent, social embeddedness is seen here as “institutionalised social capital” (*Broadbent, 2000*). The “embedded autonomy” of the developing state is determined by the dense social linkages that serve as bases for defining development objectives (*Evens, 1995*). Although the examples are from the Far East, according to the author, “embedded autonomy” is a key concept of active developing state that could be extended to the corporatist European tradition of social control over the state (*Ádám, 2006*).

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<sup>39</sup>The budgetary deficit was around 10% in 2006 that has been dropped to 7% within one year due to the severe measures of the so-called Convergence Programme of the Hungarian Government.

As a consequence of macro-economic processes and weak policy instruments, regional disparities have grown sharply in the last decade. Despite the unparalleled financial assistance coming from the EU, researchers (*Fazekas, 2005*) as well as the authors of the Horizontal Ex Ante Evaluation of the New Hungary Development Plan have predicted that this will continue. This is very little to do with the actual – centralised, decentralised or combined – manner of programming and implementing of the first Hungarian Development Plan. What deserves attention is the set of mechanisms through which the European Commission effectively influences institution-building and operation. After channelling vast pre-accession funds to lay down EU-related institutions and procedures and making further steps following the considerations of the evaluation results, Hungary failed to demonstrate that it had installed an effective and transparent decentralised institution system that was able to channel EU funds. As a consequence, for the short post-accession period of 2004–2006, the Commission decided not to support decentralised programming and programme implementation. The example clearly shows that the space for manoeuvring is extremely narrow if it is against the firm intention of the Commission.

The centralised manner of programming and programme implementation of the first ROP have had an influence over later developments, at least indirectly, through the strengthening of re-centralising tendencies. In Autumn 2006, the establishment of new self governing regions suggested by the re-elected government was abandoned. This shows that the price of safer programme implementation can be rather high in a country where path dependency is already in support of the political centre.

As far as the present programming period is concerned, we can say that compared to the previous period, there have been significant changes. Decentralisation appears to be a tendency that is increasingly breaking through, albeit with limitations and in a somewhat paradoxical manner. For the first time, sound funding is available to support the implementation of development goals at regional level. This and the parallel tendencies in domestic policies inevitably imply that regional-level institutions have become much stronger than before. This is evident so far in case of the RDAs, that have become even “too strong” as compared to the regional development councils.

“Regional Development Agencies grew too fast, grasped too many roles and the politicians at the regional development councils started to worry. Politicians have realised that they shouldn’t let agencies be self-controlled. Therefore, there are power struggles.” (Development Director, RDA, Southern Transdanubia)

These struggles are brought about by information-monopolies and the fact that the regional development agencies are occupying key posts within the develop-

ment process. They are also caused by some recentralising measures in the management structure (such as the dual reporting responsibility of the RDA managing directors, to the regional development council on one hand, and to the National Development Office on the other). Beyond the re-strengthening of central control over regional organisations, the following constraints limit their autonomy:

- the centrally organised Managing Authority and Monitoring Committee;
- the shared managing of the processing of the applications between RDAs and the VÁTI (a government extension service, central organ).

Such limitations have been interpreted differently from various sides. One of the manager directors of the South Transdanubian RDA, for example, was happy and worried at the same time:

“Now the NDA can also appoint the head of the RDA, or rather, his (the commissioner’s) consent is needed for the nomination. ... This condition reflects well the Hungarian situation. The wagon cannot go faster than the horse ... “(Development Director, RDA, Southern Transdanubia).

The unprecedented concentration of political power and control over EU resources brought about under the pretext of enhanced efficiency can also be identified at the central level. As an impact of this concentration, at least two unfavourable consequences can be identified: (i.) an increased risk of political hijacking of the development process, on the one hand and (ii.) a decreasing influence of the ministries with their professional concerns, on the other.

## **5 Conclusion**

EU funds had an extraordinary impact on institution-building and transformation in Hungary. The pre-accession funds played an essential role in shaping an EU-compliant institutional system assisting new institutions into being. Their role was enormous in transmitting certain norms and influencing a broader set of institutions, thereby infiltrating deeper into the “texture” of social, economic and policy fields. The road of transmission was paved by conditions set by the Commission and led to a certain adaptation that is still in the making. Stepping on this road, each actor had to prove that the conditions had been met and then the support could have been claimed and received.

Transparency, co-operation and decentralisation were probably the most important norms transmitted as by-products of the first generation of EU grants, at least as far as their impacts on the spatial policies are concerned. Within a vast learning procedure, SAPARD, being the only programme managed by the acces-

sion states, introduced the full range of institutions related to the management and control of the EU Funds. With regards to decentralisation, it was the PHARE programme that did the most. It linked these three principles to one another when it targeted various meso-tiers of administration and promoted micro-regional and county level decision-making in the beginning (associations, county councils), then regional development councils and agencies at the end. Transparency and insured procedures were essential conditions when grants were allocated to the new institutions either in the case of SAPARD or the smaller PHARE funds spent by the experimental regional councils/agencies of the PHARE pilot regions.

What was tried on the small-scale via pilot projects with relatively little money was mainstreamed to large-scale later on, in the post-accession phase. Mainstreaming seems to go together with simplifying, less NGO participation and growing central control. The latter is aimed at either balancing the increased autonomy of the decentralised institutions, or simply being part of the measures taken by the central administration when re-constituting central governance structures. This is what happened with regional project selection under SAPARD (i.e. it was centralised) and, with the decentralised decision-taking authority of the PHARE-supported regional development councils. PHARE pilot regional development councils comprised a wide range of civic and public organisations with voting capacities, compared to which civic influence was narrowed down already in 1996 by the Regional Development Act and further shrunken in 1999 by the amendment of the Act.

Despite the efforts and experiments done in the 1990s, the regional institutions did not prove to be strong enough to channel post-accession funds. Subsequently, a central management prevailed in the first post-accession period which was followed by a considerable “controlled decentralisation” in the next period starting in 2007. The third generation of EU-related regional policies and their implementation structures is thus representing half way on the twisting road of decentralisation of public policies in Hungary that, hopefully, will not repeat the turns of the past.

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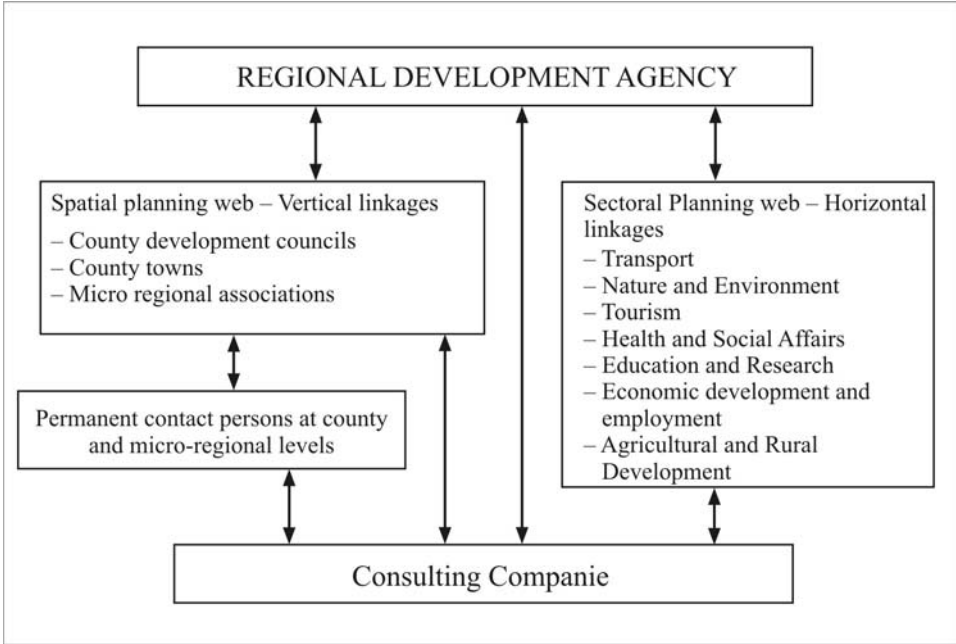
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**Annex 1**  
**Key actors in regional development in Hungary 2006**

Annex 2

*Vertically and horizontally organised thematic groups  
in Southern Transdanubia, 2006*



Source: Márton, 2005, 63.

**Annex 3**  
**The contribution of production branches to the GDP 2003**

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