

**CONSTRUCTING
RURAL DEVELOPMENT**

*MODELS, INSTITUTIONS, POLICIES
AND THE EASTERN ENLARGEMENT*

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I. INTRODUCTION

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SIGNIFICANCE, OBJECTIVES AND METHODOLOGY

I.I. Background and some questions

Rural development and rural policy-making have been important and complicated matters and are becoming even more so in a wider European context. Their share in redistributed financial resources reflects their importance. Spending directed to rural areas and through various sectors of the rural economy still commands a sizable proportion of the EU budget, and those of Member and Associate Countries. Rural policies are essential for economic and social cohesion, as well as democracy and political stability in Europe. On the other hand, rural policy-making is a complex issue, involving various, often conflicting, interests and approaches. It represents an interface between different sectors (such as agriculture, regional development and environmental protection) and involves various stakeholders. Furthermore, besides domestic interests, there are important international forces in action shaping these policies and making the situation even more complicated.

Nevertheless, the development of rural regions in Europe has been a vital issue in the past and poses major challenges for the future of the EU. Over the past decades, due to economic, political and environmental changes, there has been a significant shift in the philosophy of EU policies relating to rural matters. EU agriculture has evolved and the CAP has been reformed. Multiple income sources have emerged as a widespread feature for farm households, and 'diversification' has become a keyword in restructuring the rural economy. 'The Future of Rural Society' (Commission, 1988) signalled a new way of thinking and what appeared to be a new policy direction. In addition, the reform of the Structural Funds led to a new style of spatially organised rural development. Some programmes went much further, introducing novel 'bottom-up' or endogenous development approaches. The most notable was LEADER, achieving remarkable results through participation and the use of local resources.

However, as it is frequently argued, apart from the rhetoric little has changed in reality with the mainstream programmes, most of which still serve the interests of commercial lobbies rather than promoting the cohesion of underdeveloped areas through integrated rural development policies.

The next major challenge for the EU is the accession of the Central and Eastern European Countries (CEECs). This is likely to have a major impact on rural areas in both East and West. In the West, it might reduce the financial resources available for regional development and raise the importance of efficient 'bottom-up' programmes. It will increase the prospects for inter-regional co-operation, could strengthen the political weight of EU regions and may bring new knowledge and experiences into rural development. In the East, accession will open up new markets and bring new financial resources, as well as a new way of thinking about rural issues and 'soft development'. Through inadequate policies, however, it could maintain or deepen regional disparities, causing serious problems for an enlarged Community. Compared to Western Europe, CEE rural areas are not simply backward. They are different! Particularly in less developed and peripheral regions, they often have a more traditional society and economy and unexploited natural resources, all potentially advantageous factors for an integrated, sustainable approach to rural development. Such an approach would mean tackling structural problems and backwardness through top-down spatial and sectoral policies, while unlocking local resources through the promotion of empowerment and participation. CEE has long been on a different development trajectory and therefore the EU system should not simply be copied there. On the contrary, alternative approaches and development models should be found. Based on their indigenous resources and the judicious use of EU assistance, future Member States could become an experimental field and then the driving force for the long heralded, fundamental reform of EU rural policies, with special regard to the Common Agricultural Policy (CAP).

Such an evolution, while welcome in some of the current member states, would also be much needed in most CEE regions. Rural areas and rural people here generally have been among the main losers from the economic and political changes of the 1990s. The centrally planned economy and its collapse resulted in the social and environmental degradation of many rural areas. The eastern enlargement of the

European Union (EU) is most likely to further aggravate these problems. Europeanisation, naturally, exposes peripheries to growing global competition, in which CEE rural areas have a weak starting position. Domestic and European rural policies are supposed to eliminate or at least to reduce these problems. However, can the current and proposed policies be expected to fulfil this role? Is there a chance for the eastern enlargement to become a major driving force for the long awaited reform of EU rural policies? Alternatively, will it result in outdated EU policies simply being transferred to the new member states?

Apart from political rhetoric, there is little movement in the direction of reform. To fulfil accession requirements and to access current and future EU funds, applicant countries have had to further centralise their policies and institutional system in compliance with the current EU model. At the same time, CEE policy makers do not seem to perceive an alternative route for rural policies, which could better suit their development trajectory. During the pre-accession preparation and the negotiations, a primary objective of CEE governments has been to fulfil the requirements of the agricultural lobbies of their countries, fighting for the highest possible amount of direct agricultural aid from the EU. Neither EU, nor CEE domestic policies seem to provide sufficient support for a sustainable, participatory rural development approach. In parallel, however, several accession countries have experienced a burgeoning of 'bottom-up' development activities and at least some decentralisation in planning and decision making procedures. Reinforced by EU rhetoric (on sustainability, participation and local development) regional and micro-regional structures, NGOs and civil society are gaining more influence and political representation in the CEECs. Centralisation and decentralisation, therefore, are parallel and could well be complementary processes in CEE rurality. A well working rural development system needs both: centralisation for strategic planning and resource allocation, as well as local structures to deliver aid and to mobilise local resources.

In all probability, EU accession will be a long and difficult process. Both East and West will have to learn from and about each other. Consequently, there is a great need for international, comparative research in the field of development policies and practices across Europe. As a rural sociologist, I have two main scientific interests in this field. One is the present and future of Central and Eastern European countryside,

and the other is the evolution of the new paradigm for rural development, often referred to as an 'integrated' or 'neo-endogenous' approach. The coming eastern enlargement brings these two fields together, providing an excellent framework for research and analysis. The four main problem areas for exploration have been:

1. EU rural policy making and the evolution of the new rural development paradigm;
2. Within this the EU pre-accession policies – understood also as indicators showing the intention of EU policy makers towards reforms in the foreseeable future;
3. The ongoing transfer of institutions, policies and development philosophies from the EU to Central and Eastern Europe;
4. The observable and extrapolatable effects of pre-accession preparation and the transfer of EU resources, rules, institutions and development approaches on Central and Eastern European rural policies and rural life in general.

In addition, the main questions for this thesis have been the following:

- How are EU rural policies likely to be influenced by the eastward enlargement?
- How are the accession preparations and future EU membership likely to influence CEE rural areas?
- How are EU policies, institutions and development practices transferred from the current EU to Central and Eastern Europe?
- What sort of policies and approaches can be successfully transferred and which are likely to end up in policy failure?
- How are new requirements and possibilities adapted to domestic and then to local circumstances?
- How do central and local systems of rural development emerge in the new context; and how could their integration be achieved?

- What lessons can be drawn from the experience of eastern enlargement for the emerging 'new rural development paradigm'?

I.II. Methodology

I tried to tackle these questions on different levels, with various methodological tools. Nevertheless, the research was essentially a qualitative one, based on interviews; structured conversations; participant observation and action research. I also analysed EU and Hungarian legislation and related political documents. Besides these I reviewed the relevant Hungarian and international literature; appropriate statistics; newspapers and political speeches. Information sources on the Internet were also heavily used during the research. The reason for using this type of methodology is deeply rooted in the topic of the thesis. I tried to analyse ongoing, contemporary processes, explore intentions, sometimes hidden agendas and find long term trends which drive rural policy making and are likely to have significant effects on the European countryside in the foreseeable future. In such a contemporary process reliable statistical information is scarce and there is no well established analysis. Indeed, around 1996-1997, when I first started to translate my writings on this topic from English to Hungarian I had difficulties because many expressions on integrated rural development that had currency in EU discourse were actually missing from the Hungarian scientific vocabulary. This has all changed: today rural development is included in the name of a Hungarian ministry; conferences have been organised and between 1999-2001 more than 50 articles were published in notable domestic scientific journals on this topic.

During the research I realised that the task I wanted to fulfil was very exciting, though extremely difficult and complicated. I chose a moving target. EU policies, CEE reality and their relationships have all been rapidly changing during the five years of the research. I had to accept that it became impossible to follow all the different stages and results of this evolution. Therefore I tried to concentrate on long-term trends, the factors of change and continuity and the main determinants of policy-making and implementation. I found this to be the only way of giving a scientific analysis, but still remaining in close contact with the everyday reality of rural development in a wider

European context. As a consequence of the rapidly changing environment my case studies and empirical examples might soon become interesting, though dated examples. However, I hope that my analysis - on changing policy paradigms; on the transfer of established policies (as procedures, institutions and rhetoric) to transition countries; the effects of these policies on central and local development systems and the evolution of integrated rural development - will have a longer-term validity.

The first and highest level to explore was an international policy level. This included the preparation and implementation of AGENDA 2000 and its impact on pre-accession policies; the ongoing debate on CAP reform; and the negotiations and bargaining with the applicant countries concerning their pre- and post- accession aid for agricultural and rural restructuring. To explore this level I used multiple sources. Most information was gathered through in-depth interviews and structured conversations undertaken with EU officials in Brussels. Between 1997 and 2002 I conducted some 50 interviews in EU institutions, such as: various departments of DG Agri; DG Regio; DG Enlargement; DG Environment; the PHARE Unit in DG 1A; the Taskforce for Enlargement and the European Parliament. Another significant source of information was the European Agricultural Convention process, which was initiated by the former chairman of the Agricultural Committee of the European Parliament. This initiative pulled together a number of rural development experts from current and future Member States, worked out discussion papers and policy recommendations and organised workshops and conferences with the participation of the highest level stakeholders (agriculture ministers, the president of the European Convention, etc.). I participated in this work as a Hungarian rural development expert and through that I gathered valuable up-to-date information about ongoing debates and trends in European rural policies.

The third important source of information was an international research project, running between 2000-2003; financed by the Land Use Policy Group (LUPG) of the UK Conservation Agencies and the World Wide Fund for Nature (WWF); and commissioned from the Institute for European Environmental Policies (IEEP) and my home department, the Centre for the Rural Economy of the University of Newcastle upon Tyne. The title of the project was the Nature of Rural Development (NORD). It compared the effects of the Agenda 2000 CAP reform and the pre-accession

programmes on the evolution of rural development institutions and programmes in a number of European countries, both EU members and applicants. I was in charge of the Hungarian component of this project. The workshops and conferences connected to the NORD projects and my contribution to the comparative reports allowed me to keep abreast of the evolution of rural development policies and their implementation in various European countries. A fourth, similar source of information was my participation in the Rural Innovation Working Group of the COST 12 programme (European Co-operation in the Field of Scientific and Technical Research). In addition, I participated on various conferences, workshops and summer schools, concerning the topic of my research, in order to gather up-to-date information. Additional information was gathered from the regular reports of the Commission, political speeches, statistics and other data, mainly published on the Internet. Furthermore, this part of my topic is by far the best explored by scientific research, therefore I could gather a lot of information from secondary sources, such as journal articles and conference papers.

I followed the effects of the preparation for eastern enlargement of the EU on one of the applicant countries, Hungary, as a case study. Therefore, the next level to be explored by the research was the Hungarian domestic arena for rural policy making and rural development. My background is in Hungarian rural sociology, and I have been following socio-economic changes on the Hungarian countryside since the early 1990s. However, I used to do field research on village or micro-regional level, and therefore exploring domestic policy-making and governmental negotiations was definitely a new challenge for me. Nevertheless, I have been following happenings in the Hungarian rural development arena on the level of state policies since early 1998. The main source of information, similarly to the EU level, was again a number of interviews and structured conversations with government officials (in the Ministry of Agriculture and Rural Development [MARD], Ministry of Environment, Prime Minister's Office, PHARE Regional Development Office, National Spatial Development Centre, etc.); with representatives of economic interest groups, civil organisations, NGOs, various stakeholders and experts of this field. Some important

actors (the main co-ordinator of the SAPARD¹ Programme, the Rural Development Unit of MARD or subsequent leaders of the SAPARD Agency, for example) were interviewed several times about subsequent developments and changes. I conducted some 70 interviews over a period of five years on the Hungarian domestic level.

Besides interviews, I also employed 'action research' analysis at the domestic level. From 2001, I have actively participated in the Hungarian Rural Parliament as a rural development specialist. This meant going to workshops and conferences organised by MARD, as well as participating in those meetings where MARD presented legislative and strategic programmes to NGOs and other stakeholders in order to fulfil EU requirements for harmonisation and social dialogue. These activities allowed me to have a close insight into the policy-making process and learn about deeper motivations and sometimes even hidden agendas of various actors.

The above-mentioned NORD project also provided me with some enlightening experiences. I had to write two papers, one on the determinants of rural policy making in Hungary (institutions, legislation, stakeholders, harmonisation of interests) and another one about the effects of the pre-accession preparation. As a requirement of the project, I had to circulate the draft version of the studies amongst all significant interested parties in the Hungarian rural development arena. Then I organised two workshops (one in each case), where all involved parties could make comments that had to be incorporated into the final text. The workshops attracted considerable interest each time and served to provide me with several important lessons. First, they helped to correct mistakes in the study, but more importantly, the questions and comments of the participants (bureaucrats, NGO and interest group representatives, experts, etc.) and especially the arguments between them greatly helped me to understand the dynamics of rural development and pre-accession preparation in Hungary.

Besides interviews and action research, I also used secondary sources of information to explore the domestic level. I analysed legislation, followed the ongoing domestic

¹ Special Accession Programme for Agriculture and Rural Development

political debates on the television and in newspapers. I used available statistical information as well as writings and talks of domestic experts on the topic.

The main difficulties for the research on the domestic level concerned the availability of information. Officials of various ministries were often not available or not willing to give crucial information. In general, they were more difficult to approach than Brussels bureaucrats. Similarly, background written information, statistics, even official green papers and legislation were often not available; some of them were secret documents (most notably the National SAPARD Plan, until its EU accreditation).

The third level of the research was a regional one. I intended to explore how a regional institutional system is being developed, as a consequence of EU requirements and their adaptation to domestic conditions. At the time of preparing for this PhD, the EU initiated a pilot development programme in Hungary using PHARE Pilot Action Funds². The programme aimed to assist in developing regional-level institutions and procedures for spatial development in compliance with EU norms. Other objectives were to find new rural development models and to check how local institutions and people can deal with EU rules and administration in rural Hungary. My original plan was to follow up this programme from the preparation to the final results on the ground. I wanted to explore what is beyond programmes and rhetoric; how EU objectives and procedures work in Hungary under 'real life circumstances'; what are the final effects of such a programme on the everyday life of rural people.

As the main methodology for this part of the research, I wanted to apply participant observation. One of the EU requirements for the programme was to set up regional development agencies. South-Transdanubia and Northeast Hungary were the two designated pilot areas for the PHARE regional development pilot programmes and I was able to get the agreement of the South-Transdanubian Regional Development Agency to work with them as a volunteer.

² I learned about this programme at the very beginning of its preparation from an interview in DG I A, conducted with the then PHARE desk officer for Hungary, in 1998.

For a two-year period of the research, therefore, I moved to Pécs - the main cultural and commercial centre of the region. Besides working for the Regional Development Agency, I conducted a number of interviews, read newspapers, listened to local radio stations and talked to 'everyday people' about their problems. I visited eco-villages, saw gorgeous landscapes, met fantastic people and experienced real working communities. I observed rural problems, dying villages, environmental pollution, bad management of natural, material and human resources, lost battles and hopes for a better rural life. Besides being an excellent research field, Pécs also proved to be a superb place to live. I made many friends, played music and enjoyed the vigorous cultural and community life of the city. These two years for me do not simply relate to the research for my PhD, but constitute a broader and fulfilling life experience. I warmed to the place, its people, sunshine and Mediterranean-like air. In short, I feel intellectually and emotionally concerned and somewhat responsible for the future of some of the rural localities and the people I met during this time.

The most significant problem in this section of the research was the delayed implementation of the programme. Although applications had been launched and most of the preparation done in 1999, for political and bureaucratic reasons there were no payments until the end of 2000. This coincided with the proposed end date of my fieldwork. Originally, the whole programme should have been finished by that time. This would have allowed me to observe the results and some of the real life effects. Nevertheless, having no money spent, there were hardly any impacts in the field. Therefore, I had to find another emphasis for my observation and analysis. After some confusion and futile expectation, I finally opted for the most obvious possibility. Although the PHARE programme had few effects on villages, it did see the establishment of the regional institutions and the Agency itself. They have provided an observable and worthwhile topic for my research. At first, I wanted to use the Agency only as a basis for information and contacts at the local level. But in the event its efforts to become a 'mediator' between the central and local level and the circumstances helping or hindering this attempt became the main subject of my observation. I followed the preparation of the PHARE programme, and the institutional development of the Agency - its embeddedness in local and central networks and its struggle to negotiate a path of survival through the minefield of regional politics. Altogether, I spent about four months at the Agency in three terms

of office (in the internals I returned to Newcastle). Since then I tried to keep informed about their work through conversations, interviews and their reports.

During the two years of the regional research I visited a number of rural localities. My aim was to cover a large variety of actors, from tourism enterprises to agricultural co-operatives. I observed the villages, and conducted interviews with project managers, mayors and officials of the local authorities, small businesses and ordinary people. I collected statistical information and read project proposals and other documents provided by the project partnerships and the local authorities involved. I chose some of the projects visited through my own contacts made while working in the Agency, others were recommended by colleagues. Some of them were chosen because I thought they were typical (for their activities or organisation, for example). I chose others because they were peculiar for some reason, such as their innovations or the dynamic personality of their leader.

One of the most difficult choices in completing this research was to decide an appropriate cut-off time at which to finish data collection. I have been observing ongoing processes and writing parts of the thesis alongside the observation. However, almost every month brought new twists and developments in the story, sometimes qualifying my previous analysis. Therefore, I had to find an end point for collecting data and even considering new developments for the analysis if I ever wanted to finish writing up. For pragmatic reasons (mainly to do with my physical presence in various localities, whether Pécs, Budapest, Brussels or Newcastle) but also out of consideration for significant culminations in the process I was investigating, I finished collecting information for the three different levels at somewhat different times. For the EU level I found 13th of November 2002 - the date of the Copenhagen agreement - to be an appropriate point. This agreement closed the pre-accession bargaining and negotiations and set the scene for a 'new chapter' in the saga of eastern enlargement. Although I make some references to the outcome of this agreement, I do not analyse the consequences of the agreement. For the Hungarian domestic level the situation is a little more complicated. I essentially finished the main data collection with the most recent general elections in spring 2002. This brought in a new government which undertook some changes in the institutional system and the philosophy of rural development, which I chose not to analyse. Nevertheless, it was important to follow

through certain critical developments, such as the accreditation of the Hungarian SAPARD Agency for the sake of narrative completion. The regional level research was finished much earlier, essentially in 2001. After this I only followed the completion of the PHARE pilot development programmes, but did not monitor other changes to the development structure of South-Transdanubia.

I.III. The structure of the thesis

The *first chapter* 'The politics of rural development in Europe', explores the evolution of rural policies in EU, making some comparisons with CEE rurality. First I explore some theoretical concepts on how policies are transferred from one country to another, what a policy paradigm means and how it might change over time with special reference to the changing conceptualisation of rural development (1.1.). The rest of the chapter is based on literature review; document analysis; and interviews and experiences gathered at the European level. An account is given of how the modernisation paradigm prevalent in EU and CEE rural policies has been eroded during recent decades (1.2.1.-1.2.7.) and what the expression 'rural development' might mean for various actors and stakeholders of this story (1.2.8.). Then I analyse some early documents of the SAPARD programme, to show the original intentions of EU policy makers at the beginning of the pre-accession preparation (1.3.1.-1.3.3.). At the end of the first chapter I make some conclusions on the EU's strategy for eastern enlargement and its possible implications for the evolution of European rural policies (1.4.).

The *second chapter* is about integrated rural development. In the first part I review the relevant literature, exploring what the 'new rural development paradigm' means; from what sources it has been developing and what direction it is likely to take in the foreseeable future (2.1.1.-2.1.4.). This is followed by a classification of different types of disadvantages, associated with rural development (2.1.5.), and an exploration of various type of rural values (2.1.6.). This section concludes with an effort to give a working definition for 'integrated rural development' (2.1.7.) – one of the main concerns of this thesis. The second half of this chapter elaborates on the theorisation of the new rural development paradigm, applicable from the viewpoint of CEE

rurality. It provides an analytical framework and formulates an essential vocabulary for the rest of the thesis; and discusses some propositions and questions which are tested throughout the Hungarian case study chapters. After defining the categories of 'central' and 'local' (2.2.1.), the characterisation of 'central and local systems' of (rural) development follows (2.2.2.). The third section explores how various rural disadvantages can be tackled and resources unlocked through the identified central and local development systems (2.2.3.). What follows is a simple model, concerning integrated and non-integrated rural development, which is offered for testing and analysis throughout the study (2.2.4.).

The last section of this chapter introduces the category of the 'reflexive agency', offered as a possible tool for connecting local and central development systems to achieve integration (2.2.6.).

The *third chapter* intends to set the scene for the two Hungarian case studies, providing information on Hungarian rurality, historical and current economic trends, political and social contexts, supporting factors and barriers for integrated rural development. After providing basic statistical and geographical information (3.1.1) some historical background is offered (3.1.2.). The next section (3.2.1.-3.2.5.) explores various changes of Hungarian agriculture, land ownership and land use and investigates productivist agriculture as a possible resource for rural development. The third big section of this chapter (3.3.) explores rural development aspects of the Hungarian countryside, other than agriculture, including: regional differences within the country (3.3.1.); rural industrialisation (3.3.2.); the effects of regional development policies during socialist time (3.3.3.), and the resulting rural migration tendencies of the last decade (3.3.4.). This section concludes with a summing up of regional development problems in Hungarian rurality (3.3.5.). The fourth section of this chapter explores domestic policies, available resources and the institutional framework of Hungarian rural development, including those actors - governmental institutions, public authorities, civil organisations and economic interest groups - which have an important influence on policy making and implementation in Hungarian rural development (3.4.1 - 3.4.4.). The next section (3.5.1 - 3.5.4.) investigates how and what rural resources can be reconfigured for helping integrated rural development. At the end of this Chapter I outline and explore two alternative

scenarios for Hungarian rurality – one concentrating on intensive agriculture, the other on diverse rural development activities.

The *fourth chapter* explores and analyses in detail the influence of pre-accession preparations on the Hungarian rural development system. A special focus is on the SAPARD and the accompanying domestic rural development programmes. First the official SAPARD programme is analysed. After placing SAPARD in the Hungarian rural development system the drawing up of the National SAPARD Plan is explored including the domestic conflicts surrounding it and the influence of the European Commission (4.1.1.). The SAPARD process had broader, indirect effects which, although unintended, did nevertheless have a significant influence on the Hungarian rural development arena and these too are analysed (4.2.). The next section gives a detailed analysis of the National SAPARD Plan (4.3.1 – 4.3.4.), then the difficulties of building the SAPARD Implementing and Paying Agency are explored (4.4.1 – 4.4.2.). The chapter ends with some qualitative analysis and assessment of the whole process and the outline of the two (central and local) evolving Hungarian rural development systems (4.5.).

The *fifth chapter* is a regional case study. It has several aims. One is to show a concrete example of how an EU development policy, based somewhat more on the ‘new paradigm’ than on the old one - transferring a development philosophy, rather than bureaucracy - can be applied to the circumstances of Hungarian rurality. The second aim is to show the emergence of a regional level institutional system, with special regard to the regional development agency, and to analyse its role in connecting central and local development systems. The chapter starts with some background information and statistics showing the situation of rural areas in South-Transdanubia (5.1.). In the second section I analyse regional development institutions, programming, and political factors constraining the process (5.2.1 – 5.2.2.), before exploring the two subsequent PHARE regional and rural development pilot programmes, which provided the basis of the case study (5.2.3.). The third section is an exploration of the evolution of the Regional Development Agency and a detailed analysis of its mediation role and reflexivity in various fields of the rural development arena (5.3.1 -5.3.3.). As a conclusion to this chapter, I compare the conditions for integrated rural development (based on the philosophy of the new paradigm) under

this particular PHARE pilot programme with my model of integrated rural development, and explore those circumstances which enabled the agency to play an important role during the process (5.4.).

Chapter 6, in the light of all findings of the research, draws together the trends of the analysis and formulates conclusions concerning the most important aspects of the thesis. First, the evolution of EU rural policies is analysed (6.1.1.), paying special attention to the nature of the policy transfer (hard or soft). Then the pre-accession policies, the possible effects of the eastern enlargement on the future reform of the CAP is investigated (6.1.2.). The next section (6.2.) provides some further comparative analysis about the two EU funded rural development programmes, explored in Chapters 4 and 5. I compare the philosophy, the key institutions and the integrated, versus non-integrated nature of the programmes. The third section (6.3.) revisits the effects of pre-accession preparation on Hungarian rural development, and draws some conclusions about the future development prospects of Hungarian rural areas.

CHAPTER 1.

THE POLITICS OF RURAL DEVELOPMENT IN EUROPE

With the shifting of the cultural and socio-economic environment, policies and theoretical thinking about rural development have been continuously changing over time. Rural development, therefore, is an opaque concept used by various interests with different meanings. No agreement exists as to what development as a process, as a goal or as an achievement is, or what should be considered 'special' about rural development, as opposed to other types of development (Buller and Wright 1990). For the past thirty years rural development as an academic and a political subject or as the 'life of everyday rural people' has held many different meanings. Earlier approaches started from the modernisation paradigm, trying to modernise all aspects of rural life: agricultural production, social structures, culture and physical infrastructure. Rationalisation, intensification and economic growth were important aims thought to be achieved mainly through external intervention. As significant drawbacks of modernisation and external intervention became obvious, an endogenous and sometimes preservationist approach towards development started to emerge. This operated with a different set of principles building on local resources and participation, 'process type aims', traditional values, and so on. This approach worked to counter many earlier problems; however, it could commit whole areas into low development trajectories (for a more detailed account see Chapter 2).

At the end of the last millennium, emerging socio-economic changes in the countryside could no longer be understood within the old paradigm. The rural economy, employment issues and the aims and circumstances of agricultural production all changed considerably. Therefore, a new rural development paradigm started to take shape, trying to explain current socio-economic changes of the European countryside. It draws together various scientific concepts and operates with old and new ideas, such as networks, institutions, control, development repertoires and 'repeasantization'. Nevertheless, the new paradigm is based on practical examples, rather than theoretical thinking, and it is still being formulated (van der Ploeg et al 2000).

The following review does not intend to be an exhaustive one, although it tries to achieve various aims. First I shortly review the literature on the notions of the transition of public policies and the possibility of a paradigm shift in the policy making process. These concepts will be employed throughout the thesis when I analyse rural policies of the EU, of CEE countries and/or particular development programmes (see subsequent chapters, particularly 1, 4 and 5). Then some of the most important rural socio-economic changes and connected theoretical concepts of the last decades will be explored, and comparisons between Western and Eastern European countryside will be drawn. Rural policies can be pro-active, can go hand-in-hand with socio-economic changes of the countryside, but can also give late or inadequate answers to these. In this section I also intend to show some important contradictions within the EU rural policy system and to summarise those various meanings in which 'rural development' is used in the vocabulary of EU policy making. The following section examines the intention of EU policy makers whether to change or to reinforce the old paradigm in connection with eastern enlargement, through the analysis of the SAPARD regulation. Finally I try to make some conclusions on the EU pre-accession policies and their possible effects on the evolution of the ongoing reform of European agricultural and rural policies.

1.1. Shifting the policy paradigm, transferring public policies

The literature on the development and transfer of public policies is large. The following draws upon key articles, picking up ideas, approaches and a vocabulary, important for the subsequent analysis.

In their review article, Dolowitz and Marsh (1996:344) define policy transfer as "a process in which knowledge about policies, administrative arrangements, institutions etc. in one time and/or place is used in the development of policies, administrative arrangements and institutions in another time and/or place". This seems to be a good, widely accepted working definition for the subject. However, there is some confusion concerning those policies introduced within an international organisation - such as the EU or the WTO - and disseminated throughout all participating countries. Should these sorts of policies be classified as policy transfer or not? Another definition by

Stone (1999:53) provides an answer in saying that: "policy transfer occurs at the sub-national level; between states in federal systems and across local governments, municipalities and boroughs. Policies sometimes develop from particular local practices - either through pilot schemes or the innovations of street level bureaucrats - and are transferred to other local areas or settings".

A usual approach to policy transfer is a pluralist one saying that it brings new ideas to inward looking states and bureaucracies and opens up possibilities for change. However, as Dolowitz and Marsh argue (1996:355, 356) "if policy transfer occurs within relatively closed international policy communities, instead of introducing new ideas, lesson drawing simply reinforces the existing system, ... maintaining the status quo". They continue stating that: "policy making is not inevitably, or perhaps even usually, a rational process. Rather, it is often a messy process in which different policy, solution, and problem streams need to combine at the appropriate moment for a policy to develop". Factors such as political conflicts, lobbying power, the dysfunction of bureaucracy and the ruling policy paradigm have a great influence on the process.

Important factors, discussed by the literature are: '*who transfers the policy*' and '*what is transferred*' (Dolowitz & Marsh 1996). The main agents of policy transfer are: elected officials; political parties; bureaucrats; pressure groups; experts; supra-national organisations; NGOs; academics; and even entrepreneurs. The objects of policy transfer can be: policy goals; administrative techniques; institutions; ideology or justifications; attitudes and ideas; approaches and philosophies; and negative lessons. The most important factors constraining policy transfer are: the complexity of the policy; the transferring agency; and the institutions, political culture and financial resources of the transferring country. The more complex a policy, the more difficult it is to transfer and the more likely the transfer will end in failure. Rose (1993), for example, suggests six factors of complexity for examination: 1) programmes with single goals are more transferable than programmes with multiple goals; 2) the simpler the problem the more likely transfer will occur; 3) the more direct the relationship between the problem and the solution, the more likely it is to be transferable; 4) the fewer the perceived side-effects of a policy the greater the possibility of transfer; 5) the more information agents have about how a programme

operates in another location the easier it is to transfer; 6) the more easily outcomes can be predicted the simpler a programme is to transfer.

Another topic to be examined is the nature of policy transfer. The literature identifies two basic types. The first is called *hard* (Stone 1999) or *coercive* (Dolowitz and Marsh 1996) transfer, or by others *instrumental learning* (Stone 1999) or *legitimation* (Bennett 1997). In this type, legislation, standard procedures, bureaucracies, rules and regulations are transferred from one place (one country) to another, mainly by centrally controlled bureaucratic institutions. The policy transfer is compulsory; local actors are usually obliged to comply with new regulations but are also entitled to aid and benefits, delivered by the policy. A clear example for this type is the enlargement of international organisations (EU, OECD, WTO, NATO, etc.). Here new member states are obliged to accept the whole body of regulations existing in the mother organisation (in the case of EU enlargement this is the *acquis communautaire*). The other type is called variably *soft* or *voluntary* transfer, *social learning* or *harmonisation* by the above authors. In this case it is not simply bureaucratic institutions and legislations that are transferred, but approaches, development philosophy, broad policy ideas, new technologies or management techniques. Rather than the government bureaucracy, the main agents of the transfer are civil organisations, academics, NGOs and entrepreneurs. The whole process is somewhat 'softer' and more difficult to follow than in the case of hard transfers. However, consequences can be deep and far-reaching and as a result, new approaches can become an inherent part of official policies. Examples could be the environmental movement, organic agricultural production or various forms of customer protection.

A study written by Hall (1993) concentrates on a somewhat different understanding of social learning and explores the change of policy paradigms, rather than their transfer between countries. Hall suggests that: "policymakers work within a framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing. Like Gestalt, this framework is embedded in the very terminology through which policymakers communicate about their work..." (1993:279). He calls this framework a policy paradigm and takes advantage of Thomas Kuhn's analogy on scientific paradigms to explain the learning process in public policies. Hall distinguishes first, second and third order changes in

policymaking. *First and second order changes* are the results of 'normal policy development', usually responding to policy failures rather than simply the challenge of emerging problems. These changes can bring in new policies, new objectives and ideologies, but do not change the policy paradigm. They are usually most strongly advocated by experts and the civil servants who have to operate and implement the policies, in other words they are the results of the autonomous action of the state.

Third order changes involve the significant alteration of basic principles and could be considered as a *shift of the policy paradigm*³. They respond to the changing circumstances and 'anomalies' that are impossible to deal with through the old paradigm and hence have resulted in repeated policy failures. According to Hall, in a typical case a third order change is initiated by external advocates, who need to have a well-developed alternative policy paradigm to replace the old dysfunctional one. Technical questions previously handled within the ruling administrative system become the subject of public debate. The paradigm shift occurs backed by political transition (change of government and bureaucrats) and is driven by overwhelming political authority, rather than expertise.

The above models are important for the applied argument, since they help to understand the nature of policy changes and how policy transfer as an influential external factor can have significant effects on the policy development of individual countries.

1.2. The 'modernisation paradigm' and the evolution of rural policies in Europe

Until recent years, the prevailing policy paradigm in rural development was the exogenous model, with modernisation as its ruling concept. The basic notion here is that rural areas are lagging behind urban centres. The main reasons for their backwardness are physical remoteness, low accessibility, and the traditionalism of socio-economic and cultural systems. As indicated by this approach, to improve the situation, these areas have to be modernised and connected to dynamic centres and

³ Hall's example for third order change is the fundamental transformation of British economic policies from the Keynesian to the monetarist paradigm, which gained place with the victory of Margaret Thatcher in the 1979 elections.

expanding sectors. All this can be achieved through central interventions. According to Stöhr (1986), during the “upswing” phase of the Kondratieff cycle after World War II (p.59 *ibid.*) regional policies in general applied an uniform model of development as quantitative growth, predominantly characterised by mobility and capital, “creaming” regional resources and exporting bottlenecks and adjustment problems to peripheral regions and countries.

According to Lowe et al (1998:8) the basic attributes of exogenous model of rural development are as follows:

- Key principle - economies of scale;
- Dynamic force - urban growth poles. The main forces of development conceived as emanating from outside rural areas;
- Function of rural areas - food and other primary production for the expanding urban economy;
- Major rural development problems - low productivity and peripherality;
- Focus of rural development - agricultural industrialisation and specialisation, encouragement of labour and capital mobility;

These features characterise exogenous development in general. Nevertheless, within this model, several subsequent waves of approaches and policies can be differentiated with diverse objectives and measures. I distinguish three of them here: agricultural and agricultural structural policies; rural industrial and regional development policies; spatially designed 'top-down' policies. The first two of these labels refer to the changing emphasis between agricultural and regional development policies, the two main approaches to exogenous, sectoral rural development. The third one refers to the more recent development of a spatial or territorial approach of rural policies, which integrates previous sectoral policies in order to achieve the development of a particular spatial area. These different waves of exogenous development represent an evolutionary process, but they are also implemented in parallel. The rest of this section (1.2) explores those more recent developments of EU policy making, which have tried to give an answer to the problems arising from modernisation during the

last decade, from the introduction of the LEADER programme to the promises and observable effects of the Agenda 2000.

1.2.1. Agricultural and agricultural structural policies

According to classical political economy of agriculture (Marsden et al 1990), the social and economic functions of rural areas have changed significantly as a consequence of the mutually reinforcing processes of modernisation, industrialisation and urbanisation. During the post War 'boom period' of European economies, for example, the available capital and labour force together with industrial and commercial activities increasingly concentrated around major cities and industrial areas of Europe. This resulted in the practice of commuting and/or the migration of population from rural to urban locations, providing the labour force necessary to fuel the rapid development of Fordist industrial hegemony (Bryden 2001). Traditional peasant life and culture was seen as an obstacle to improvements. Modernisation and 'depeasantisation' became parallel concepts (Giner, Sevilla Guzman 1980:15-16). Within spatially polarised but nationally integrated geographies rural economies became specialised and homogenised; small-scale industries and other economic activities were virtually removed from many areas. In this development trajectory the spatial category of rural was often viewed as residual to urban (Saraceno 1994) and "the function of rural areas, stripped of other economic activities, was to provide food for the expanding cities" (Lowe, Murdoch and Ward 1995: 89).

The first wave of post war 'rural development' philosophies and subsequent policy making was derived from the aim of the reinforcement of this process in those countries and areas, where 'too many people remained on the land'. Development problems of rural areas were understood in terms of peripherality or remoteness, low productivity of primary sectors and the physical exclusion of rural people from urban jobs and services, diminishing their standard of living. The overall aim was modernisation of the rural economy and society, through connecting backward regions to dynamic centres and expanding sectors in addition to encouraging the transfer of progressive models, technologies and practices into rural areas. To achieve these aims, the *first wave* of centrally designed and implemented *exogenous* policies was introduced (Lowe et al 1998). The main objectives were: intensification of

agricultural production; the development of farm-oriented agriculture; consolidating farm-structures; and the encouragement of capital and labour mobility towards industrial areas (Lowe 1999).

Although social and economic circumstances as well as applied policies were significantly different in Western and Eastern European (or capitalist and socialist) countries, results show many similarities.

In *Western European* democracies the process was influenced mainly through the market, subsidies for technological change and the welfare system. After World War II the main aims of agricultural policies was to ensure a sufficient domestic food supply and maintain farmers' livelihoods. This was thought to be achieved through progressive price subsidies ('the more you produce, the more money you get'); development of market institutions and support of voluntary co-operation (first agricultural structural policies). The image of the 'hard working farmer', as the manifestation of 'protestant ethics' and capitalist entrepreneurship prevailed until recently, having an important effect on the process (Ward 1998). The philosophy behind most introduced policies was the support of family farms. However, paradoxically they resulted in the acceleration of the outflow of labour from agriculture and the disappearance of many of these family businesses (Commins 1990). Within the European Community a Common Agricultural Policy (CAP) was introduced and the European Guarantee and Guidance Fund (EAGGF) was set up. Financial resources were provided for agricultural entrepreneurs through price support and for "structural modifications"⁴ required for the proper working of the common market" (Commission 1997:1). Besides agricultural policies the general support for the industrialisation of core regions and the development of the welfare state (especially urban social housing) also had a significant effect on the economic and social restructuring of rural space. The subsequent development resulted in a capital-intensive agriculture, which was less dependent on nature and required much less human labour. Family farms remained the predominant form of agricultural production. However, as a result of modernisation these families produced more and

⁴ Such as agricultural structural policies for consolidation farm structures, land improvement schemes, development of farm orientated infrastructures, subsidies and loans for mechanisation and introduction of more advanced methods of production, etc. (Lowe et al. 1998)

used larger areas, therefore, the number of farms and size of the agricultural workforce fell inexorably. All of this resulted in an increasing migration of the population towards industrial areas.

In the socialist countries of *Central and Eastern Europe* (CEE) similar results were attained through the very different instruments of planned economy, restrictive rules and political dictatorship (for a more detailed account on the Hungarian case see Chapter 3.). Here the existence of independent farmers meant a major impediment in the way of the creation of a centrally controlled socialist society and economy⁵. In most CEE countries the first major step was therefore the forcible confiscation of land and other agricultural means of production from the peasantry, referred to as 'socialist collectivisation'. An official economic justification of the process was built on rationalisation and the theory of economies of scale, but the political aim was the centralisation of every area of life. In most CEE countries large agricultural holdings were created and many peasants were driven out of farming. Political goals, at least at the beginning, were more important than economic ones: yields and overall production suffered significant falls during the first years of collectivisation. However, subsequent, centrally driven programmes aiming at the intensification of agricultural production were carried out. The result was a very large scale, capital-intensive agriculture, run in hierarchical systems, which, paradoxically to the justification of the economies of scale, was less efficient and employed significantly more people than its Western counterpart in the long term. Nevertheless, through political pressure for intensification, the number of people employed in agriculture fell steadily. This, similarly to Western countries, ensured the manpower for the forced development of heavy industries from the 1950s onwards (Nemes 1998).

In CEE countries there were significant differences in the resulting patterns of population changes compared to the Western European countries. In most CEE regions the welfare state was not strong enough to provide sufficient housing and other essential services for a sufficient number of workers within industrial areas. Many rural people were squeezed out of rural labour market, but were not able to move into the developing centres (Szelényi 1971). Beside migration tendencies, a

⁵ A frequently quoted phrase of Lenin was: 'Capitalism is reproduced by private property every day'.

culture of large scale industrial commuting from rural to industrial areas was taking shape, having far reaching consequences for the future economic and social patterns of rurality. Another significant difference occurred in the intensification of agricultural production, which, as a result of poorer capital investment, reached a much lower level in most CEE regions. This had important consequences for the economic and social structure, as well as for the natural environment. Less intensified agricultural areas usually preserved more traditional values (production methods, way of life, culture, etc.), more agricultural employment and more natural and cultural diversity in general⁶.

1.2.2. Rural industrial and regional development policies

As it soon became apparent, agricultural restructuring alone could not stabilise rural economies and rural populations. Indeed, they seemed to intensify the flow of labour out of agriculture and often out of the rural areas altogether, causing concern for the viability of rural regions. The depopulation of peripheral areas and the balanced development of national territory became preoccupations of rural policy in Europe. Consequently, in addition to continued agricultural support, rural infrastructural and regional development policies, focusing on peripheral regions were introduced. Main aims were attracting new types of employment into rural areas and building the necessary infrastructure to accommodate industrial production in the countryside.

In most *Western European countries* manufacturing companies, encouraged by both government policies and cheap labour, were relocating from urban to rural areas, or opening branch plants. Development agencies were set up to provide financial support, programmes to improve infrastructure, including transport systems, communication lines and the provision of serviced factory sites (Lowe et al 1998). However, this process (in Britain, for example) was accompanied by an attempt at rationalising the settlement system in order to reduce the costs of running physical and social infrastructure in remote, scattered areas (Buller and Wright 1990). A so called rural 'branch plant economy' emerged and was strengthened, especially in France,

⁶ This, besides Central and Eastern European Countries (CEECs), also occurred in many less favoured areas (LFAs) of Western Europe.

Italy, Ireland and the UK. At the same time in the Mediterranean countries and some remote areas of Europe, the emerging 'tourism industry' had a similar effect on the rural economy. A change of development philosophy within agricultural policies could also be encountered (Marsden et al 1990). Following the 'Mansholt Plan' (1968) and the British accession negotiations in the early 1970s; a regional differentiation with measures for the less-favoured areas (LFAs) was introduced. This policy aimed to protect farmers and special farming practices of backward and disadvantageous regions, and, at the same time, it was the first rural policy of the EU that targeted particular spatial areas.

A new Council regulation on financing the CAP was also introduced (1970) which placed a greater emphasis on the process of adapting agricultural structures. Then the 1980's brought a new regulatory framework of EU structural policies up to the reform of the Structural Funds in 1988 (Commission 1997). In most European regions, agriculture became a marginal employer giving space to manufacturing, light industries and increasingly to tourism and burgeoning service industries. Pluriactivity became a more widespread phenomenon amongst those who could no longer live on farming alone and had access to the wider labour market. These 'withdrawing' part-time farmers generally continued the same style of production, albeit on a smaller scale and in a less intensive manner, compared to their full-time counterparts.

In some *Central and Eastern European* countries a parallel process brought somewhat similar results. In Hungary, for example, from the late 1960s intensive programmes aiming at agricultural modernisation were carried out (see Chapter 3 for more details). Advanced production methods were introduced, previously independent co-operatives were merged and large-scale mechanisation was undertaken⁷. This resulted in a further decline in demand for agricultural labour, but agricultural co-operatives had a political obligation to provide local employment. From the mid-1970s many of them established industrial enterprises, so-called '*industrial sidelines*' for raising employment, using free capacities and securing cash flow for agricultural production. These industrial units worked mainly in processing or light industries,

⁷ Between the early 1960s and the early 1980s all of this resulted in a rapid 2-3-fold increase in yields, thus approaching or actually reaching the standards of developed countries.

often as branch plants of big factories from industrial centres. Although the technical equipment and production methods used were usually outdated, as a result of cheap labour and favourable regulations these small plants could flourish and they introduced industry to many rural areas. By the early 1980s most rural towns and larger villages had some sort of industrial production, although with significant regional differences (Nemes Nagy 2001). Employment patterns had changed from agriculture towards industry irreversibly and industrial commuting became a fundamental characteristic of the rural economy. Nevertheless, 'counterurbanisation' as experienced in Western countries, was almost totally lacking. During the same period major investments in rural infrastructure and transport systems were also undertaken. However, some remote areas were almost omitted from these improvements. Similarly to Britain, several attempts to rationalise the settlement system in scattered, remote areas were made by the central government, reinforcing the abandonment of the most disadvantaged areas and settlements (Nemes 1998).

1.2.3. The failure and the 'escape' of the CAP

The 1980s brought a significant change in thinking and philosophies about rural development in the EU. By the late 1970s the exogenous model was falling into disrepute, the insufficiency of agricultural and other sectoral policies in treating problems of backward areas became apparent. It has become clear that the global conditions which dominated the post-war period were changing, and the basic assumptions of traditional regional development policies have become invalid. "Besides reduced growth rates, increasing energy and mobility costs, and reduction in the availability of public funds, one consequence of global change was the disappearance of ecological, economic, and political free spaces." It became clear that the displacement of bottlenecks and costs of development to peripheral areas cannot take place indefinitely and core regions had to find internal solutions for their problems (Stöhr, 1986, p. 65).

Results of externally driven rural development policies turned out to be highly vulnerable to global economic and political forces. The recession of the early 1980s resulted in the closure of much of the 'rural branch plant economy' developed in previous decades (Lowe, Murdoch and Ward 1995). At the same time, economic

recession greatly diminished the capacity of the urban sector to absorb the surplus rural population. Mistaken directions of post war agricultural policies and development also became obvious. The aim was not further intensification any more, but rather reduction of surplus agricultural production. All these resulted in rural unemployment and/or depopulation in certain areas. Extensive environmental damage, caused by industrial agriculture was also recognised, as green and ecological movements emerged all over Europe (Holzinger and Knoepfel 2000). At the same time, in many regions of Western Europe, society was being reshaped by an extending counterurbanisation; providing living space for urban migrants became a major purpose for many rural settlements (Murdoch et al 1994). Newcomers, compared to locals, often had different or even contrasting preferences concerning the objectives of development and preservation. Counterurbanisation, therefore, brought both new resources and new sources of conflicts to rural localities.

Rural development theorists interpreted this period as an era of fundamental socio-economic changes and labelled it as rural restructuring (Marsden et al 1993, Murdoch and Marsden 1994). Many UK researchers tried to answer the questions: 'why do people move to the countryside?' (Marsden 1993, Cloke 1994, Murdoch 1997). They found that though some poor people had moved to villages to find a cheaper living, the major source of migration was the prosperous urban population. They came for landscape, tranquillity, a more traditional way of life and other values. This, together with the growing importance of rural tourism, forecasted a fundamental change of the functions of rural space and economy. Lowe (1994) at the same time classified four types of rural areas (preserved, contested, paternalistic and clientelistic) according to the development of their social structure, contact with urban centres and relations to primary production or more novel types of rural economic activities.

Significant changes in rural economy and society had to be reflected by EU policy makers. The most burning problems in the mid-late 1980s were cutting the growth of surplus agricultural production; and to achieve price stability; to avoid unmanageable financial difficulties of the Community budget. This was partly achieved through quotas, set aside and setting a ceiling to the growth of agricultural budget by the late 1980s. Nevertheless, a growing sense of environmental damage, social costs, dwindling agricultural employment and external forces (such as subsequent rounds of

the GATT negotiations) required policy makers to apply significant changes to agricultural policies. In 1992, however, a proposal to conduct an overall reform to CAP (McSharry reform) could be implemented only in a 'rather diluted' form due to a resistance from agricultural lobbies and some member states. According to many critiques, a very similar process would be followed in connection with reforms under Agenda 2000 (see 1.2.7.).

Consequently, studying the successive reforms of the CAP one could say that a 'paradigm shift' still has not occurred in the field of agricultural policies. In spite of the changing circumstances and growing pressures the CAP has been able to 'escape' through first and second order changes (see 1.1.). When old measures failed to meet new circumstances, reform proposals were originated from within the EU bureaucracy (a distinct characteristic of first and second order changes) and were watered down, rather than reinforced by external forces (conservative economic and political lobbies). Rhetoric, objectives, policy instruments, support mechanisms were changed, however, basic principles (competitiveness, intensive production) and the very unequal division of the subsidies amongst farmers were practically untouched⁸. Farmers were compensated for the termination of previous market supports. Most negotiated changes were consequences of liabilities taken up during the ongoing trade talks with the WTO (World Trade Organisation) and requirements to maintain cash-flow in the EU budget, and had no impact on the fundamentals of the philosophy of the programme (Ritson and Harvey 1997). The core of supports, maybe under a different denomination, continued serving the interests of industrial agricultural production, causing further damage to rural environment and society.

1.2.4. Spatially designed 'top-down' approach

During the 1980s unfavourable tendencies appeared regarding regional differences within the European Community. A slow convergence that had characterised the previous period among the countries and regions of Europe ended and inter-regional

⁸ According to the so-called 80-20 rule of the CAP, 80% of agricultural support benefits the 20% of producers having the largest and most intensive farms, with the highest yields, located in the most favourable agricultural regions of the Community (Kola 1999:33).

differences rose again to a level that used to exist before the 1970s (Amin and Tomaney 1993). The first attempt to approach this spatially defined problem through the regional concentration of resources was the introduction of a pilot scheme called 'three integrated programmes' (Commission 1997) in 1981 to support some backward areas in Scotland, France and Belgium. The next step was the accession of the southern countries of Europe. It was the first enlargement in which large underdeveloped areas and a sizable poor population was granted admittance to the Community, compared to its former membership. Consequently, regional inequalities grew significantly, which gave further importance to regional policies. The Integrated Mediterranean Programmes, introduced to handle the arising problems, expressly endeavoured to reach a complex economical, social and environmental balance of rural parts (Commission 1997).

In accordance with the new directives announced in the first 'Delors Package' by the European Commission (Commission 1987), economic and social cohesion as well as reduction of regional differences within the EU became a primary object in order to establish a 'unified internal market'. As a corollary of that, the Structural Funds underwent dramatic reforms and the regional approach became more robust within development policy. The above-mentioned Integrated Mediterranean Programmes served as pilot programmes for structural reforms. The budget for the Structural Funds was doubled and the fields in need for support were classified into groups (or 'Objectives' in the EU terminology) on the basis of the nature of the problem. As far as rural development was concerned, priority was given to Objective 1, 5b, and later 6 after the accession of Nordic countries. By 1999, Structural and Cohesion Policies covered nearly three-quarters of the EU area and almost 35% of the population of the Union (Commission 1997).

The question can be raised: was this process a paradigm shift, or rather should it be considered as a second order change (see 1.1.). Overall, Structural Policies represent a very significant transformation compared to previous policies of the EU. A whole set of new institutions and policy instruments was set up, new objectives and funding methods introduced, and a new ideological framework created. The main reason for these alterations was the serious changes in the economic and political circumstances and the 'external pressure' of the southern enlargement. These could well be the signs

of a shift of the policy paradigm. However, there are opposite indications too. The new system supplemented the old paradigm, rather than replaced it; new policies and institutions were initiated and designed from within the existing bureaucratic system and network of experts. Besides, the style of policy making has not changed significantly. Most territorial policies, introduced under the reformed Structural Funds remained exogenous in nature. They were spatially designed and had certain elements of a 'bottom-up' approach⁹; however, they mainly implemented previous exogenous regional development and agricultural structural policies, within a territorially focused framework (Lowe et al 1995).

As it has been argued by Amin and Tomaney (1993; 1995) structural policies also failed to achieve the cohesion of different areas of the EU. A main reason for this, as they say, was the inadequacy of the financial resources, provided by the policies. Under the reformed Structural Funds only 0.24% of the GDP of the EU was redistributed, which was not enough "to cope with the huge productivity gap between the core regions and the large number of less favoured areas" (Amin & Tomaney 1993:13). As they argue, there is not much chance for a fundamental change of this figure. This was shown, for example, by the resistance of the member states to ratify the so-called 'Delors II package' in 1992, which aimed to increase expenditure on cohesion. Therefore, the very basic principles of the policy paradigm - such as its top-down, centralised nature and its orientation towards global competitiveness - were not challenged by the new system. Thus, within the given framework of analysis (Hall 1993), the development of the Structural Policies as a second order change, which fits into the processes of 'usual policy evolution' rather than representing a paradigm shift.

A certain erosion of the ruling policy paradigm had started, however. The most apparent signs of this could be found in the new reforms and the rural development rhetoric. Political documents and speeches (CEC 1988, Franz Fischler's speeches on DG VI website) began to urge the application of a more complex approach to problems, emphasising a 'rural preference' instead of 'agricultural preference' specified in the Treaty of Rome. The condition of 'sustainability' and a need for an

⁹ Such as partnership and additionality, for example.

integrated, spatial approach instead of supporting economic sectors spread gradually. The European Commission set out forward-looking objectives in a green paper entitled 'The Future of Rural Society' (CEC 1988). This served later as the basis for reform initiatives and new trends in rural development. In parallel to that a pilot project called LEADER (Liaisons Entre Actions de Développement de l'Economie Rurale) was introduced in 1991 in order to apply bottom-up rural development models building on the internal resources of local communities.

1.2.5. The LEADER Programme

LEADER was launched with a very modest budget in 1991. Owing to its experimental status the rules and the control of the entire programme was rather loose, giving space for innovation and local initiatives. "It was defined by the European Commission more as a set of principles than through pre-ordained, technocratic, sectoral measures" (Ray 1997:3). The main preferences were: invention of new, innovative and transferable ideas in rural development; small scale local development activities based on participation, community involvement, partnership and use of local resources; building up a cross-regional or trans-national network of local initiatives (for details see Ray, Curtin, Shucksmith, Storey and others). According to Shortall and Shucksmith (1998:8): "The LEADER programme viewed local people as the principal asset of rural areas, and the distinctive characteristic of LEADER projects was the reliance placed on the people who live in rural areas, and on their ability to discover what was best suited to their environment, culture, working traditions and skills". The programme was also intended to have a multiplier effect in the sense that "the activities of a project should generate outcomes and benefits which extend beyond the area of operation of the project, or beyond its allotted time-frame" (Commins 1997:70).

Another important characteristic of this approach is that the process whereby a local community achieves its aims is no less important, from the viewpoint of development, than the targeted objectives themselves. As Kearney, Boyle and Welsh (1995:22) point out: "Development is not simply a question of undertaking projects, nor achieving objectives specified in narrow economic terms. Development is also a process, by which is meant the creation of local products such as upgraded local

leadership, a culture of enterprise and innovative action, or the enhanced capacity of people to act in concert, purposefully and effectively.... It involves enabling communities to have greater control over their relationships with the environment and other communities. Essentially it involves empowering communities to have greater influence on their own development...".

As a result of loosely determined principles and goals, many interpretations of the LEADER approach came into being and the first round of the programme ended in 'anarchic development' (Ray, 1997/1). The final outcome was influenced not only by local, economic, social, geographical, organisational, cultural and ethnic conditions, but often other incidental conditions such as the personality, skills and social relations of the central co-ordinator or the local manager. In some cases LEADER meant just another financial opportunity up the sleeves of local political and economic leaders. Nevertheless, in other examples it succeeded far beyond its financial importance and restructured the local society and economy by applying treatment at the root of the problems.

The second round of the programme (1994-1999) applied very similar principles, albeit with significant changes in implementation. In terms of the number of projects, the overall budget and the territorial coverage LEADER II was some four times larger than the prototype. The order of priorities also changed, a greater emphasis was placed on international co-operation and environmental protection. The growth in magnitude and budget entailed more formal rules, institutional background and tighter control, which greatly reduced the experimental and innovative nature of the programme. Transparency, transferability of models and administration became more important. On the other hand, carefully considered strategies, interregional and international co-operation and the reinforcement of various 'process type' community goals brought a number of positive results.

The LEADER programme itself could well be understood as a radical divorce from modernisation, or a shift of the earlier policy paradigm. Although it was originated from within the bureaucratic system, it took a route, which was almost the opposite of the usual policy practice. New institutions and procedures were built, separately from the traditional bureaucratic system, employing what has been referred to as "reflexive practitioners" (see Ray 1999). The bottom-up approach was a widely referenced

development philosophy, alternative to the earlier paradigm, and LEADER was an experiment to answer failures of earlier policies and fill the new development approach with content in a European environment. It was backed by various political forces and significantly contributed to the reinforcement (and partly the emergence) of a 'third way' development lobby¹⁰. It was also endured by the old paradigm, since it proved to be a rather economical way of helping rural areas and had an 'experimental budget' only.

Many have criticised both rounds of the programme. Nevertheless, the majority of experts agree that the LEADER Programme was a success (see Fischler 1997, Ray, 1996, 1997/1,2, 1998, Curtin et al 1996, Mernagh and Commins 1997 Shortall and Shucksmith 1998). Its significance for those involved goes far beyond the share it received from the Structural Funds or the anticipated results it had been expected to achieve. LEADER I and II generated enormous enthusiasm and introduced the bottom-up approach into the minds of bureaucrats and politicians and into everyday practice of European rural development. It also played a vital role in establishing a trans-national network of regions, which appeared on the EU's political palette as a fresh, strong lobby to promote backward regions and endogenous rural development.

This success of bottom-up development, according to commentators, should have justified LEADER becoming a core instrument in its own right, or through the fundamental integration of its philosophy into major structural and rural policies¹¹. This could have been a logical step, similar to what had happened in the case of Structural and Cohesion Policies in the late 1980s. Nevertheless, such a change has not occurred under Agenda 2000 and is not likely to happen in the foreseeable future either. A paradigm shift has not taken place in EU policy making as a whole, thus LEADER and the bottom-up approach have remained a somewhat alien body in the ruling system. On a rhetorical level the 'new paradigm' has become part of the official language and some changes have occurred in bureaucratic institutions and procedures, especially in Structural Policies. However, basic principles have not changed and

¹⁰ Today this is embodied in the Committee of the Regions, the European wide network of LEADER groups and others.

¹¹ "Rural development must be local and community-driven within a coherent European framework, building on the pilot LEADER programme" (Shortall and Shucksmith 1998).

LEADER, instead of entailing a paradigm shift, has gradually become a somewhat modified version of the old paradigm, through its increasing dilution during subsequent rounds of the programme.

Nevertheless, LEADER contributed significantly to the erosion of the modernisation paradigm. It showed the possibility of an alternative way in practice; reinforced regional identities, created a trans-national network of small localities and made a contribution to the building of a coherent policy paradigm, alternative to the ruling system.

1.2.6. The Cork Declaration

After the launch of LEADER, the next significant step in building a new paradigm for rural policies was initiated by Franz Fischler, the next Agricultural Commissioner, with a European agricultural strategy paper (CEC 1995); a Conference in Cork, held in 1996, and the resulting declaration published in conclusion.

The balance of forces pulling on the CAP was shifting, making it difficult to defend the *status quo* politically. The prospects of EU enlargement to the east, to include countries with sizeable agricultural sectors with many social and economic difficulties, raised the issue of how the CAP would need to be adapted to meet this challenge. There was also explicit recognition of the international pressures for more trade liberalisation. A study written by an international team of experts (Buckwell Report 1997) set out a timetable for converting CAP into CARPE (Common Agricultural and Rural Policy for Europe) in which the 'Rural' element was meant to be an 'integrated rural development policy', based on the principals of a 'bottom-up' approach.

At the Cork Conference Commissioner Fischler talked about the need for a rural development policy that is truly integrated, not with a narrow sectoral focus on the agricultural industry; that is tailored to local needs and conditions that draws in a wide range of partners. Above all, the policy objective should be “sustainable and integrated rural development” (Fischler 1996). He aimed to draw together political and scientific groups to the benefit of underdeveloped regions, to put all reforming efforts into a unified system, and thus to establish a theoretical and professional

background for the development of forthcoming reforms (The European Conference on Rural Development 1996, Bálint et al 1999).

The declaration from the Conference, although not agreed by all participants, pointed towards a much expanded rural development programme to embrace the whole farmed countryside rather than focusing on specific geographical zones. Many of the existing funds and schemes were to be brought together to simplify the plethora of policy mechanisms. Subsidiarity was seen as an important mechanism in achieving the objective of an integrated rural policy, with an emphasis on regional programming and greater transparency and participation. The Cork Declaration talks of “*making a new start* in rural development policy” (emphasis added) and sets out ten points that should guide the development of rural development policy. *First*, sustainable rural development must become the “fundamental principle” which underpins all rural policy. *Second*, rural development policy must be multi-sectoral with a clear territorial dimension. *Third*, support for diversification should enable private and community-based initiatives to become self-sustaining. *Fourth*, policies should promote rural development that sustains the quality and amenity of Europe’s rural, natural and cultural resources. *Fifth*, rural development policy must be “as decentralised as possible”, and emphasise participation and a ‘bottom-up approach’. *Sixth*, rural development policy and notably its agricultural component should be radically simplified. *Seventh*, there should be one single rural development programme for each region. *Eighth*, rural development policies should encourage the use of local financial resources. *Ninth*, the administrative capacity of local and regional governments and community groups should be enhanced. *Tenth*, programmes should be monitored and evaluated more strictly by stakeholders in the process.

Suggestions were made at the conference to reorganise the EU’s institutional and financial background, as well as to establish a separate budget and a Directorate especially designed for rural development. These proposals, however, were not included in the final document for political reasons.

1.2.7. Agenda 2000 and the Rural Development Regulation (RDR)

The Cork Declaration urged EU politicians to support the idea of integrated, sustainable rural development and put it into practice. The proposals, however, failed through the resistance of various political and economic forces. The Declaration was thus not endorsed by the Council of Agricultural Ministers and was sidelined by the EU Heads of State (Dwyer et al 2003). Nevertheless, ever since, the Commission's rhetoric has frequently referred to the Cork principles in various policy papers and political declarations. Thus, the Commission's Agenda 2000 reform proposals, issued in July 1997, linked together proposals for changes to agricultural policy and the Structural Funds with the plans for the enlargement of the EU and the framework for the medium-term budget for the Union. Substantial reorganisation of CAP funding mechanisms was proposed and a new emphasis was to be placed on simplification of rules and more decentralised application. Besides continuing with market and income support, a broad range of rural development and agri-environmental measures were to be introduced throughout the Union. To address these issues, the new RDR laid the foundations for a comprehensive and consistent rural development policy whose task will be to supplement market management by ensuring that agricultural expenditure is devoted more than in the past to spatial development and nature conservation (European Commission, 1997).

March 1998 saw the publication of a set of detailed draft regulations to 'put flesh' on Agenda 2000. The draft RDR aroused considerable interest amongst commentators. Intended to establish an integrated legal framework for farm and rural development and agri-environment measures, its key features at the time were as follows (Dwyer et al 2003):

- It was to be co-financed by the Guarantee (rather than the Guidance) Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) which traditionally funded only the CAP market regimes¹².

¹² This rearrangement of sources among EAGGF Guidance and Guarantee Funds may facilitate a change in program funding, administration and institutional background and anticipate a future expansion of *integrated rural development* (Lowe and Ward 1998).

- It was to be applied across the whole of the European Union.
- European funds were to be allocated on the basis of multi-annual programmes prepared ‘at the most appropriate geographical level’ within Member States in a similar way to regional implementation of the Structural Funds.

This represented a significant shift in emphasis and funding responsibilities to make rural development policy a more central feature of the CAP. Indeed, much was made of the fact that the proposals referred to rural development becoming the CAP’s ‘Second Pillar’.

Although a novel departure, the draft Regulation was broadly derived from existing CAP measures, including: structural adjustment of the farming sector; support for farming in less favoured areas; remuneration for agri-environment activities; support for investments in processing and marketing; and forestry measures. Indeed, none of the sets of measures were entirely new. The broadest measures were those promoting ‘the adaptation and development of rural areas’ (Article 33 in the final Regulation) which were derived from aids previously offered from the Structural Funds under Objective 5b (1994-9). Article 33 appeared to broaden eligibility for CAP supports to include the prospect of non-farmers and non-agricultural activities having access to the RDR budget. In addition, the Regulation included two new measures: Article 16 offered compensation for ‘areas with environmental restrictions’ as an extension to the basic Less Favoured Area chapter, and Article 32 offered payments for the maintenance of forests of ecological value where they were otherwise uneconomic to manage, within the broader ‘forestry’ chapter (Dwyer 2003).

Negotiations over CAP reform were concluded in March 1999 by Heads of Government in Berlin. They reduced the budget agreed earlier by the Agriculture Council and thus placed restrictive limits on Pillar 2 spending. The main CAP budget (EAGGF Guarantee) was limited to €40.5 billion per annum with only 10 per cent of this allocated to the RDR (EAGGF Guidance was to provide a further five per cent of total EAGGF funds for the RDR). Furthermore, Heads of Government disagreed as to how to stay within the agreed limit. Some accepted the principle of degressivity, reducing direct payments over time, and the Commission had tabled proposals along these lines (*Agra Europe*, Feb 1999). However, it proved difficult to agree a model

that was acceptable to all Member States, because of differential impacts on each State's share of the budget. In addition, a few States remained opposed to the very idea. Thus it was decided instead to limit expenditure by postponing reform of the dairy regime, reducing cereal price cuts and retaining set-aside.

LEADER + (successor of the earlier LEADER initiatives) did not carry much promise for any significant reforms in rural development either. It remained a marginal policy. The allocated resources did not grow as significantly as in the previous stages¹³. Moreover, it has become a horizontal policy, open for application for all rural regions¹⁴, which further increased the competition for resources (Rural Europe Homepage). In addition, stricter rules further reduced the experimental and innovative nature of the programme. Requirements for LEADER associations also became stricter and more formal, making the establishment of new LAGs (LEADER Action Group) even more difficult. Moreover, the number of objectives eligible for support also decreased as the programme makers determined five priorities: to spread information technology; to improve living-conditions; to exploit natural and cultural resources; to improve opportunities for women and young people. At the same time the development of international networks was further facilitated by the fact that LAGs in different countries now have the opportunity to launch joint programmes. LEADER, therefore, essentially remained as it was before - an experimental programme with small budget on the periphery of agricultural and structural policies.

The Agenda 2000 outcome was thus deeply compromised and must be judged a missed opportunity to transform the CAP (Tangemann, 1999). Effectively there was no 'reform dividend' at the EU level (i.e. no freeing up of funds from Pillar 1 to promote the integrated rural development agenda). While cohesion and a 'bottom-up', endogenous approach to development are set out as desirable objectives, Agenda 2000 puts rural development "in danger of becoming merely a branch of sectoral agricultural policy, or even agri-environmental policy" (Juvancic and Bryden 1998:10). However, crucial elements of national discretion were also incorporated into Agenda 2000 to reflect national and regional circumstances. Of particular

¹³ A LEADER + annual budget is 2.02 billion Euro (Rural Europe).

¹⁴ LEADER 1-2 were available for Objective 1, 6 and 5b areas only.

relevance to the RDR was the option of using modulation to shift funds from the first to second Pillar, within each Member State (Lowe et al 2002, Falconer & Ward 2000).

As a result of the evolution of development philosophies, references to cohesion and an endogenous (contrary to previous exogenous) approach to rural development became the main tone for policy documents and political speeches in the field of structural as well as agricultural policies. In reality, though, very little has changed compared to the time ruled by exogenous development philosophy (Bryden 2001). Mainstream policies still fail to recognise non-agricultural needs. The vast majority of resources - running counter to declared objectives of the EU's regional policy - are still allocated in order to promote industrial agricultural production and centrally organised exogenous development programmes¹⁵ (Scott 1995). The main measure of backwardness is still the GDP (Wood 1997). Even the success of community-based 'soft programmes' is usually measured through hard economic indicators like the number of jobs created or the expenditure generated. As it has been argued, "for the present, the dominant EC project is that of encouraging the centralisation of economic opportunity in the hands of the strongest players of the Community, if this helps to reinforce the EC as a global industrial power" (Amin, Tomaney 1993:14). According to Lowe et al (1997) the vast majority of EU's policies rather serve the interests of international trade, EU budget, or various economic and political lobbies, than prevent underdeveloped regions from depopulation and lagging behind, or asserts ecological aspects. Therefore there is a basic, inherent contradiction between the objectives set in political statements and the programmes proposed for implementation. In short, while in socio-economic theories and on the rhetorical level of policy making there has been a clear paradigm shift from *traditional modernisation* towards an integrated rural development approach, in reality, policy, procedural and budgetary evidence prove that this paradigm shift in actual policy making has not taken place at all¹⁶ (see 1.1.).

¹⁵ Almost one half of the budget of the EU still goes to 1.6 million large farmers. At the same time, a large part of the Structural Funds, with special regard to the ERDF, has been spent on infrastructural development of large conurbations, widening the gap between urban and rural areas.

¹⁶ This becomes even more apparent in connection with the eastern enlargement, namely through the examination of policies offered for pre-accession preparation and the first years of EU membership for the CEE countries. See following analysis later in this chapter.

1.2.8. What is 'rural development'?

There is much confusion about what should be considered as rural development amongst EU policies. As I have explored above, there are several philosophies, with different types of actions and targeted populations, related to this label. The main reason for this is that rural development is a complex issue, involving different sectors and policies, such as agriculture, structural policies, social policies, community development and all sorts of local initiatives. In the late 1980s, when the failure of the previous productivist philosophy became obvious, rural development became a 'buzzword' - the progressive slogan for the future - and all sorts of different actions and policies were paraded as 'rural development', sometimes in a very proprietorial fashion that sought to monopolise the concept. The following is not an attempt to provide a detailed analysis of this question, but rather an endeavour to clarify the use of the term for the current study, to avoid subsequent confusion.

Recently the most frequent user of the expression 'rural development' in policy documents, press releases and speeches is the agricultural bureaucracy. Within the EU this means the Directorate General for Agriculture (DG Agri/DGVI) exemplified through the Rural Development Regulation within the Common Agricultural Policy (CAP RDR). The basis of their claim on the term is that agriculture is the largest user of the land in rural areas, and traditionally it used to be the main field for economic activities. In DG Agri's current practice, according to their overwhelming philosophy, 'rural development' means those instruments of agricultural policy, which are different from the traditional 'market support type' instruments of the CAP. These policies are primarily aimed still at the structural transformation of agricultural production, including considerations of environmental sustainability. Their actions are targeted primarily at farmers, and their operations mostly remain within the agricultural sector. This type of policy will be referred to as *agricultural structural policies*.

Since the reforms of 1988, DG Regio has managed most resources for spatial restructuring, social and economic cohesion within the EU, paid for through the *Structural* and the *Cohesion Funds*. The main aim of this spending has been to help those regions that are lagging behind the average of the Community. Many of these regions are rural in character and in such cases Structural Fund interventions represent

a form of rural development. The bulk of the money under these policies has been spent under Objective 1, in large designated areas. The main innovation of these policies is their *spatial concentration*, contrary to the former *sectoral* approach. However, the majority of the improvements gained do not meet the criteria of 'rural development' for two reasons: The main activity has been targeted on large infrastructural investments, the major expenditures being devoted to urban centres and to inter-urban connections, rather than in rural areas; and these programmes belong to the types of mammoth enterprises with huge budget from which small-scale local projects at most can benefit only indirectly through the generally improved wealth of the economic environment. These types of policies will be referred to as *regional development*.

Programmes in 5b areas under the pre-Agenda 2000 structural policies were established on a different basis. These programmes were financed and managed by the Directorate of Agriculture (DGVI), thus their primary aim remained agricultural modernisation. Even so, they had a clear territorial approach, supplemented with a notion of integrating various policy instruments and generating local participation, in order to achieve socio-economic improvement in the designated areas. Theoretically, there was more space for subsidiarity, partnership, participation and local initiatives. The target areas were usually much smaller (NUTS¹⁷ 3 level generally) and therefore more appropriate for the treatment of special local problems. Local partnerships were involved in programme design and implementation, and besides agricultural measures, training and infrastructure was also supported. Nevertheless, rural economy was still understood in an agricultural framework, and non-agricultural problems were treated as inferior. This type of development hereinafter will be called *agrarian rural development*.

In 1991 the *LEADER* programme commenced as an experiment with the central idea of generating and testing ideas, gaining experience and knowledge about a 'bottom-up' rural development approach in European contexts. This approach raised a new paradigm, representing a complete change from previously centralised and 'top-down' structures. Its main characteristics are partnership, subsidiarity, accountability and

¹⁷ Spatial statistical classification of the EU.

transparency at a local level and the support of local initiatives and innovations. The objective of the programme is to support the local population of a small region to realise and implement its own ideas for the future by relying on internal resources. This type of approach will be called as *bottom-up-type rural development*.

Integrated rural development does not exist in the form of a well-defined programme in the EU's policy practice, though many documents and political speeches refer to it (most importantly AGENDA 2000). Nevertheless, there are a number of practical examples, where internal and external resources, local and global aims and actors, endogenous and exogenous development methods accomplished significant improvements in underdeveloped rural areas of Europe. These can be understood manifestations of the emerging *new rural development paradigm*, claimed by a number of authors. In the rest of this study, *integrated rural development* will be used as an expression to embrace existing practices, institutional arrangements and a general approach, complying with the formulating new paradigm.

1.3. Enlargement and rural development – the way forward for rural Europe?

The coming eastern enlargement brings a larger area, more countries and more people into the EU than any of the previous enlargements and is most likely to lead to significant changes. It will increase regional differences and inequalities, but it will also enrich human and natural resources, cultural and economic diversity - features expected to have positive effects on the future of the whole of Europe. According to the guiding principles of the European Treaties, cultural and natural diversity should be coupled with economic and social cohesion. Presumably, the most difficult challenge for post-accession EU policies will be to keep this objective and to face the problems caused by the large backward rural areas and the poor populations of the newly joined countries. Previous enlargements (e.g. the Southern enlargement, see 1.2.4. for more details) have contributed to the evolution of EU policies, as additional demands in the interests of new member states had to be included. Likewise, Eastern enlargement is likely to bring about significant changes in policy making. Considering that many of the expected problems are rooted in rural areas - particularly poverty and a need for modernisation - the largest challenge should be expected in the field of

rural, cohesion and development policies. As a result, this enlargement could potentially pave the way for a qualitative shift in EU rural development policies¹⁸.

According to Stone (1999), the development of new policies often goes from the particular to the general. In other words, within a state (or a supranational organisation), new policies are often designed to remedy problems in a particular geographical area. Then a modified version of the policy can be transferred to other areas and become a core policy. Presumably, if during the pre-accession period and/or the first transitional years of membership, endogenous rural development policies gained significance in CEE, it could generate changes in EU rural policies as a whole. All in all, eastern enlargement and the EU's approach towards the connected preparation could be understood as a good indicator of future trends of EU rural and agricultural policies.

For a variety of reasons, CEE countries, becoming New Member States, could provide a good field for initiating a paradigm shift in EU rural policy making (Nemes 1999).

First, after twelve years of transition, CEE economy and society is still in continuous change. Innovations, therefore, should be easier to find and introduce than in more settled countries. Also, these countries, and especially their rural areas, are in need of external resources and are thus receptive to help and strategies coming from outside.

Second, the bulk of CEE agriculture is liberalised; former socialist-type co-operatives have been 'rationalised' or turned into capitalist companies; land and other assets of production have been privatised. Nevertheless, most of CEE agriculture is in a desperate need of capital and modernisation. It represents an important and influential part of the economy in most CEECs. Nevertheless, farming sectors in recent years have not been as heavily subsidised as in the EU. Production is generally less

¹⁸ The recent round of WTO negotiations, started in October 2000, can be considered as another important outside force for change (Commission 2000/3). The CAP, especially the compensation payments and the market support measures, is likely to be challenged by other WTO members, raising the significance of agri-environmental and rural development instruments. This suggests similar direction for the evolution of EU rural policies to the Eastern enlargement, supporting an integrated approach. However, other signs, such as the Blair House Agreement signed by the EU and the USA in November 1992 during the Uruguay Round of the WTO negotiations suggest that traditional, protectionist agricultural policies might survive for a longer future.

intensive, therefore agri-environmental damage is less significant than in Western Europe.

Third, generally, rurality has a quite different view in CEE compared to Western Europe. Due to historic and economic factors (collectivisation, lack of capital, etc.) agriculture has never been intensified or specialised to a Western level. Self-subsistence and local markets are still very significant in food production and consumption.

Fourth, as a consequence of industrial commuting in the past, pluriactivity is a well-known phenomenon for most rural people. The rural population is larger and due to the lack of counter-urbanisation more homogenous and more 'local', having more social networks and traditions. In general, rural economy and society of the CEECs can be seen as more traditional, or closer to a peasant stage, than the one in the West (see Chapter 3 for detailed analysis).

Differences between Eastern and Western European rurality can be seen from various angles. Examining the situation from the viewpoint of the modernisation paradigm, CEE rurality (including its agriculture) is poor, backward and underdeveloped¹⁹. If it is due to follow the 'modernisation route', then decades and billions of Euros will be needed to catch up with the rest of the EU. Additionally, the many failures of modernisation-based EU rural and agricultural policies over the past 50 years – i.e. causing environmental damage, depopulation, growing regional differences and so on - are likely to be repeated in CEE. On the other hand, differences between East and West can also be seen as results of different development trajectories. From this point of view CEE areas did not go on the same modernisation route, but took an alternative direction to western development. If EU rural policies evolve in a more integrated, endogenous direction (realising the new paradigm), then having a more traditional rural economy and society may not turn out to be a drawback after all, but an advantage for CEECs (for more details, concerning resources for integrated rural development particularly in Hungary see Chapter 3.). Nevertheless, a forced, hasty modernisation and growing rural development problems can soon result in the diminution of such advantages.

Designing rural policies for applicant countries and Member States for the pre-accession period, EU policy makers had to make a strategic choice between aiming to maintain the present system or using the opportunity of enlargement to initiate significant changes in the field of rural policies. In the original Agenda 2000, as well as in the preliminary versions of the Pre-accession Measures, final decisions were not made on these issues and several doors were left open for future discussion. Moreover, even after the finalisation of legislation one could still have some ambiguities about the intentions and possible outcomes. Strategic trends, directions and intentions beyond political documents and moves of institutional systems and bureaucracies are often not easy to identify. Power structures are interconnected and decisions often depend on political factors, rather than rational considerations. However, examining the process of the development of documents, legislation and institutions might help to highlight strategic trends and to gain a better understanding of the whole issue.

This section explores the EU pre-accession preparation - with special regard to the SAPARD²⁰ Programme. I try to identify the main trends of the EU approach towards the eastern enlargement and rural development - based on legislative documents; political declarations and interviews conducted in Brussels during the past five years. The main aim of the analysis is to identify the original intentions of the policy makers and to judge whether SAPARD have ever had the potential to become a significant step on the way of developing a new rural policy for Europe or not.

We analyse the final SAPARD Regulation (Commission 1999/2), comparing it to its earlier draft version (Commission 1998/1) and to the CAP RDR (Commission 1999/3). The amending regulation on the management of SAPARD (Commission 1999/4) and a Vade-mecum on co-ordination of the three financial pre-accession instruments (Commission 2000/2), which intended to help the preparation of candidate countries are also included in the analysis. These documents are from the very early days of the process and at this stage I do not intend to talk about further developments, such as negotiations between the EU and CEECs, or the difficulties of

¹⁹ A few competitive sectors and geographic areas - such as some arable farms in Slovakia and Hungary or some modernised dairy farms in Poland - should be mentioned as exceptions.

implementing SAPARD. This will be the topic of subsequent analysis, with special regard to Chapter 4 where through the example of Hungary I show how and with what effects do pre-accession policies work in CEE reality.

1.3.1. The EU pre-accession instruments

The main aim of pre-accession policies has been to help applicant countries' adoption of the *acquis communautaire* and to prepare them for future EU policies. EU assistance can only support those objectives and actions, which are in accordance with these aims. For the pre-accession period PHARE 2000 + - a significantly reformed version of the former PHARE Programme - and two new financial instruments were set up: the ISPA (pre-accession structural instrument) and SAPARD. The overall annual budget for these is EURO 3120 million, which has been allocated between the applicant countries, programme by programme, according to objective criteria (Commission 2000/2).

PHARE 2000+, with half of the overall budget (EURO 1560), represents the main instrument for pre-accession. It focuses on two main priorities, institution building and investment. PHARE support for institution building helps the candidate countries to implement the *acquis* and to prepare for participation in EU policies. Investment support focuses on strengthening the regulatory infrastructure needed to ensure compliance with the *acquis* and direct *acquis*-related investments. Furthermore, PHARE supports investment in economic and social cohesion through measures similar to those supported in Member States through the ERDF and ESF. PHARE may also support measures in the fields of environment, transport, agricultural and rural development, but only if they form an 'incidental but indispensable part of integrated industrial reconstruction or regional development programmes'. However, this latter type of support is not horizontal, but restricted to priority regions in each of the applicant countries (Commission 1999/4). Within the PHARE budget there is an indicative split 30/70% between institution building and investment, and eligible investment projects must be for a minimum of 2M Euros. PHARE remains a project-

²⁰ SAPARD - - Special Accession Programme for Agriculture and Rural Development

based programme, controlled quite tightly from Brussels. A Financing Memorandum has to be signed yearly with each applicant country.

ISPA represents one third of the pre-accession budget (1040 million EURO). In terms of the type of the eligible measures, it is similar to the European Regional Development Fund and the Cohesion Fund and it is administered by the DG for Regional Policy. Its main objective is to contribute to the preparation of the applicant countries in the area of economic and social cohesion through a contribution to transport infrastructure networks and environmental protection. For transport it mainly supports the extension of the Trans European Networks, which means building motorways and international train lines. For environment the main objective is to ensure compliance with Community environmental law. This mainly supports investments aiming at the reduction of air pollution and the modernisation of large-scale sewage and municipal waste treatment. The budget should be shared equally between transport and environmental objectives. The total cost of each project should be at least 5 million EURO. The programme is controlled from Brussels, financial decisions on projects, proposed by the applicant countries, are made by the Commission several times a year.

SAPARD represents one sixth of the yearly pre-accession budget (M520 EURO). The programme is parallel with the Rural Development Chapter of CAP and the money is to be administered by the Guarantee Section of the European Agricultural Guarantee and Guidance Fund. Its main aims are to prepare CEE rural areas for EU agricultural and rural development policies and for specific mechanisms of the Structural Funds. Applicant countries could choose from a list of 15 measures to prepare their domestic programmes. There is no minimum cost threshold for a measure. Unlike for the other two instruments, the control of the programme should be decentralised and decisions made by accredited implementing agencies in each country.

In order to achieve optimal economic impact of the operations supported under the three instruments, there is a need to ensure co-ordination and complementarity between these instruments within the framework of the Accession Partnerships. The programming and implementing rules for pre-accession assistance are laid down in the *ISPA* and *SAPARD* regulations, in the Co-ordinating Regulation and in the new *PHARE* Guidelines (Commission 1999 2, 4, 5 and 7). Guidance on other issues - such

as eligible actions, co-ordination in programming, implementation procedures, co-financing, conditionality, the role of the Delegations, reporting, evaluation, monitoring and internal co-ordination - is set out in a Vade-mecum, produced by DG Enlargement (Commission 2000/2).

As a prerequisite for participating in the pre-accession programmes, applicant countries had to build institutions and produce a range of strategic programming documents. The revised Accession Partnerships, complemented by National Programmes for the Adoption of the Acquis (NPAA), provide the framework for the multi-annual programming of the three pre-accession instruments. Preliminary National Development Plans (PNDP), prepared by each country, had to be attached to the NPAAs. They had to include analysis of the country's current situation and identification of the critical development gaps and the key development priorities²¹. Rural Development Plans, covering a seven-year period, also had to be produced, in order to be able to participate in SAPARD.

1.3.2. The SAPARD Regulation

The idea of a pre-accession measure particularly for agriculture and rural development first appeared in Agenda 2000, and a draft version was launched for CEE countries²², as well as Malta and Cyprus by the Luxembourg Council in December 1997. The final document (Commission 1999/2) was accepted after the Berlin Summit, in June 1999. Details on implementation and the financial management of the programme were published in December 1999 and January 2000 (Commission 1999/4, Commission 2000/1). There follows a short analysis of the regulation, drawing upon some telling similarities and differences with the Rural Development Regulation under the reformed CAP (CAP RDR), and some important changes in the final document compared to the draft version of the SAPARD regulation.

²¹ These should be the predecessors of the future objective 1 community support frameworks.

²² These are: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia.

Objectives

As quoted from the legislation:

"This regulation establishes the framework for Community support for sustainable agriculture and sustainable rural development for the pre-accession period..." (Commission 1999/2 Preamble)

This statement refers to both agriculture and wider rural development. The Preamble of the document explains the scope of what is intended:

"...pre-accession aid for agriculture should follow the priorities of the reformed CAP; whereas such aid should be applied to priority areas to be defined for each country, such as the improvement of structures for processing agricultural and fishery products, distribution, quality control of food as well as veterinary and plant-health controls and the setting up of producer groups; whereas it should also be possible to finance integrated rural development projects to support local initiatives and agri-environmental measures, to improve the efficiency of farms, to adapt infrastructure as well as measures which will accelerate structural reconversion..." (Commission 1999/2 Preamble).

This paragraph sets out the main aims for programmes to be supported. It also gives working definitions for the development of agriculture and for 'integrated rural development'. Concerning agriculture the scope of the regulation is clearly stated and restricted to agricultural structural policies. Concerning rural development the statement is both tentative ("it should be possible") and ambiguous. Throughout the whole document it remains uncertain if the aforementioned local initiatives, adaptation of infrastructure or the structural reconversion is limited to the agri-food sector or represents a wider approach to rural development.

The two main specific objectives are the following:

"a. contributing to the implementation of the acquis communautaire concerning the common agricultural policy and related policies;

b. solving priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the applicant countries." (Commission 1999/2, Article 1).

According to the first objective the aim of SAPARD is to prepare applicant countries for the Common Agricultural Policy. However, at the time of the publication of this document (1999), the new eastern member states were to be excluded from compensation payments completely. CEE countries therefore were not being prepared for the direct payments - the major part of the First Pillar of the CAP. Instead, they were to be prepared for the Rural Development Chapter of the CAP, which remains a peripheral policy, representing one tenth of the total agricultural budget (Lowe and Brouwer 2000).

CEEC agriculture and rural areas would nevertheless have to compete and survive within the Common Market for agricultural products. In preparation, therefore, the second objective intends to solve priority problems in agriculture and rural areas of the applicant countries. This could leave a wide scope for subsidiarity, however, later on the document sets out what the priorities should be:

"...applicant countries shall ensure that priority is given to measures to improve market efficiency, quality and health standards, and measures to create new employment in rural areas, in compliance with the provisions on the protection of the environment." (Article 4/3)

There is a small but significant change in the final document, compared to the draft version. Originally the order (which implied a priority order, according to interviews with EU officials) of these two objectives was the other way around. At first, preparing rural economy and society for EU membership, solving at least some of the priority problems before accession, was the number one priority. Later it was replaced with the general preparation for the agricultural *acquis communautaire*, practically involving mainly the building of central institutions and the reinforcement of domestic agricultural bureaucracies.

Eligible Measures

The list of the 15 eligible measures, as with those in the CAP RDR, is not compulsory. According to the principle of subsidiarity it only offers a menu, from which the applicant countries can create their own programme. However, the list is strongly orientated towards agricultural restructuring. The large majority of the fifteen measures are directly connected to land-based activities.

The list of measures in SAPARD, in fact, is strongly based on the list under the CAP Rural Development Regulation (see Table 1. below for the measures) However, there are significant differences. The scope of SAPARD is somewhat narrower, some measures are totally missing and others are less pronounced or less defined. On the other hand, there are a couple of new measures in the field of agriculture and administration, specially designed for CEE problems. Also, some measures in the area of rural development give more space for integrating non-agricultural parts of the economy and society.

One of the major differences is about *environmental protection*. This is very important in the CAP RDR, representing a significant proportion of the budget and a range of measures in the programme²³ (Lowe and Brouwer 2000). In SAPARD the environmental perspective is present, but much less pronounced. There is no mention of LFAs and a wide range of agri-environmental measures and specially allocated money for environmental protection in agricultural rural areas are missing. There is only one measure promoting "*agricultural production methods designed to protect the environment and maintain the countryside*" (Commission 1999/2 Article 2). This is almost the same as the agri-environmental measure that used to be in the CAP before Agenda 2000. However, environmental protection has gained new importance after the reforms - a change not recognised by SAPARD.

²³ The most important are the support for LFAs and the Agri-environmental measures (this is the only measure which is compulsory for every EU countries). However, even under Article 33 there is a measure for environmental protection.

Table 1. Comparison of CAP RDR and SAPARD measures

Rural Development measures		
	1257/99	SAPARD
inv. agric. holdings	art 4	art 2
young farmers	art 8	
vocational training	art 9	art 2
early retirement	art 10	
LFA/AER	art 14, 16	
agri-environment	art 22	art 2
marketing and proc.	art 25	art 2
afforestation	art 31	
other forestry	art 30, 32	art 2
land improvement	art 33	
reparcelling	art 33	art 2
farm relief/management services	art 33	art 2
marketing of quality ag. products	art 33	
basic services rural economy	art 33	
renovation villages	art 33	art 2
diversification of agric. activities	art 33	art 2
ag water resources management	art 33	art 2
development agric. infrastructure	art 33	art 2
tourism/crafts	art 33	
protection of the environment	art 33	
restoring ag. prod. potential	art 33	
financial engineering	art 33	
control structures quality, veterinary		art 2
setting up producer groups		art 2
land registers		art 2
technical assistance		art 2
<i>total measures</i>	22	15

In the field of human resource management only vocational training can be supported by SAPARD. Neither early retirement nor the setting up of young farmers can be subsidised. However, contrary to the CAP, vocational training is not restricted to agriculture by the legislation.

Most measures of SAPARD are based on the measures listed in Article 33 (measures for the general development of rural areas) of the CAP RDR. The most telling difference between the two lists is represented by those rural development measures that are missing from SAPARD²⁴:

²⁴ Two agricultural measures are also missing, these are: "restoring the potential of agricultural production following damage by natural disasters and introducing appropriate preventive measures; and financial engineering".

- *marketing of quality agricultural products;*
- *basic services for rural economies and populations;*
- *promotion of tourism and crafts;*

These objectives could have been used to support endogenous development, providing economic activities and possible income outside of agriculture. Rural tourism (and crafts, producing quality local products to sell them to the tourists) is probably the most widespread non-agricultural economic activity in Western European countries and it constitutes the basis of a range of EU rural development programmes. The development of basic services is essential for any sufficient local economic development. The support for the marketing of quality products could fuel local development through reinforcing traditions, finding and grasping niche markets as well as broader EU markets for unique products of central European rurality. The lack of these measures means that any direct reference to non-agricultural economic activities is entirely absent from the SAPARD Programme. This implies that the rural economy is treated as equivalent to agriculture in this policy (all this, it should be borne in mind, in a broader policy context in which CEE agriculture within the EU will be systematically discriminated against).

The two additional measures in SAPARD, compared to the CAP RDR, are designed for special CEE problems and they are to support the restructuring of administration and the production system inside agriculture. Without the "*establishment and updating of land registers*" (which are missing or not appropriate in many CEE countries) it would be almost impossible to apply any central, administrative control on agricultural policies. Also, the support for "*setting up production groups*" is essential to restructure CEE production systems in a more Euro-compliant way.

Finance

The total budget of SAPARD is EURO 520 million/year for the ten CEE countries. Although the CAP RDR is often accused of not having sufficient resources to give enough support to rural development, the budget for SAPARD is way below even that. The maximum amount of available resources for CEE countries to prepare their

rurality for accession is just over 10 % of the CAP RDR budget. The indicative budget allocations among the applicant countries were laid down by the Commission in July 1999, based on objective criteria²⁵ (see Table 2).

**Table 2. Allocation of SAPARD resources amongst applicant countries
(Million Euro/annum)**

Bulgaria	Czech	Estonia	Hungary	Lithuania	Latvia	Poland	Romania	Slovene	Slovakia
52.124	22.063	12.137	38.054	29.829	21.848	168.683	150.636	6.337	18.289

(Commission 1999/6)

CEE countries are eligible for this aid annually until 2006 or their accession whichever is the earliest. Since CEECs are third countries, the EU had to make bilateral financial agreements (multi-annual and annual) with each of them. The money is administered under the EAGGF Guarantee section. This means that applicant countries have to fulfil the particularly strict rules of the agricultural budget on payments and accounting, which has implications for the way the programmes can be administered.

According to the regulation, the Commission required each CEEC to set up a SAPARD paying and implementing agency. The agency had to be accredited by the competent national authority, the National Fund²⁶, and the Commission verified accreditation on the spot. (Difficulties during setting up the institutional system will be thoroughly discussed in the in the case of Hungary, in Chapter 5.) Once this was done, and the Commission adopted the National Rural Development Programme, the first annual Financial Memorandum could be signed and Community financing was transferred to the National Fund. The National Fund was to act as the sole go-between for financial transfers and communication of the Commission and the Paying Agency in every country. This meant that all management tasks from the project selection stage to payments to final beneficiaries were devolved from the Commission to the CEE countries (Commission 2000/2). This was an advance on the administrative

²⁵ Size of the agricultural population; total agricultural area; per capita GDP, based on purchasing power parity; specific situation of rural areas.

²⁶ This was set up in every CEE country for the administration of the PHARE programme.

system of PHARE, in which basically everything had to be approved by Brussels. The new devolved system was intended to be simpler and quicker, and it can be seen as essential from the viewpoint of institution building and preparation for the principles and procedures of the EAGGF Guarantee Section, which gives Member States full responsibility for management. However, subsidiarity and the scope for decentralised administration stopped strictly at the central governmental level of applicant countries, to ensure transparency and accountability.

Further developments on implementation

Two subsequent documents provided some more information on SAPARD, concerning eligible measures and actions and the importance of integrated rural development within the programme. One was the legislation on the implementation of the programme (Commission 1999/5). The other one was a Vade-mecum on the co-ordination of the pre-accession instruments²⁷ (Commission 2000/2), containing a list of those activities which can be supported under SAPARD and PHARE. These subsequent documents resolved some ambiguities of the main SAPARD Regulation.

The regulation on the implementation of SAPARD (Commission 1999/4) greatly reinforces its connection with the CAP RDR saying:

"...as a general principle, support shall be granted according to the rules in force for Community rural development support, and, in particular, according to the main objectives and instruments laid down in... (the CAP RDR and the legislation on its implementation)" (Preamble/3)

It also says that:

"...particular measures referred to in Article 2 (of the SAPARD Regulation) are similar to measures referred to (in the CAP RDR) and should therefore be implemented by the applicant countries as far as

²⁷ This is an explanatory document, produced by DG Enlargement in January 2000, linking to the Community legislation on the co-ordination of the pre-accession instruments.

possible in accordance with the principles for implementing those measures in the Community" (Preamble/4)

After this (continuously referring back to the CAP RDR) the document focuses on a few measures that are new or somewhat different in SAPARD; although, it does not explain all the differences.

Most measures discussed by the document are agricultural. The legislation gives the possibility of some delay to fulfil environmental and health standards to farmers applying for agricultural investment subsidies. It excludes the retail level from the measure on 'processing and marketing of agricultural products'. It also makes implicit that producers must get "*an adequate share in the resulting economic benefits*" (Commission 1999/3 Article 26). According to the document, the agri-environmental measure should not be implemented horizontally, but at a pilot level, creating a limited number of complex projects. The document gives details about the measure on 'setting up producer groups', emphasising that the support only covers administrative and legislative costs. Finally it makes some restrictions concerning 'afforestation and the processing and marketing of forestry products' compared to the CAP RDR.

The only rural development measure appearing in the legislation is 'vocational training'. Besides, even what is said about this is in contradiction with the list of eligible actions in the Vade-mecum, mentioned above. According to the legislation, training should be restricted to farming and forestry²⁸, with the exclusion of "normal programmes or systems of agricultural and forestry education at secondary or higher levels" (Article 5-6). At the same time in the Vade-mecum 'training on local development management' and 'other vocational training' are listed as eligible activities.

The rest of the rural development measures do not appear in the implementing legislation. This is in spite of the fact that two of them – relating to infrastructure and diversification - are restricted to agriculture in the CAP RDR, but not through SAPARD. Nevertheless, according to the Vade-mecum, in CEE these measures can be understood in a broader rural development sense than in the EU under the RDR. In

²⁸ This is simply taken from the CAP RDR.

the list of eligible actions for the development of rural infrastructure, for example, roads, drinking water, energy systems, telecommunication and other infrastructural investments appear amongst others. However, these objectives can be co-financed by PHARE, and it is not absolutely clear from the documents what will be the division between the two instruments. All we know is that PHARE support should focus "on business related infrastructure in the context of regional development plans in priority regions". It can even mean that under SAPARD still only agriculturally related infrastructure should be eligible for support and others should be supported from PHARE. In this case 'other rural infrastructure' would be excluded from the Rural Development Programmes, would be subject to totally different procedures than under SAPARD and would be restricted to some priority regions in each applicant country. There is a similar ambiguity about the development of tourism and 'arts and crafts'. While in the CAP RDR they have separate measures, in the SAPARD regulation there is no mention of them. In the Vade-mecum 'tourism infrastructure, other tourism activities and craft activities' are listed under the measure for rural diversification. However, these measures are also co-financed by PHARE, without a clear distinction for eligibility criteria.

1.4. A step forward or back - Some conclusions - pre-accession policies, coercive transfer and the reinforcement of the 'old paradigm'

EU policy makers have not used the possibility offered by Eastern Enlargement to change the ruling productivist paradigm in the field of agricultural and rural policies. They have rather chosen to maintain and reinforce the present system. Agenda 2000 and the concluding reforms are likely to remain a 'wasted opportunity' (Lowe and Brouwer 2000). One could say that the pre-accession strategy concentrates mainly on political and economic cohesion. It supports almost exclusively such objectives that can be justified with short to mid-term political and economic interests and it is designed in a very much centralised, exogenous manner. Social cohesion, the reinforcement of local economy and society, indeed the general aims of an endogenous, integrated approach to rural development are almost totally lacking. Therefore, according to the present prospects, SAPARD - and eastern enlargement in

general (for details see Chapter 4) - could even turn out to be a step backwards, rather than forwards, in the evolution of EU rural policies.

The analysed SAPARD Regulation does not go beyond the CAP RDR, on the contrary, it is a watered down version of the latter. The financial resources offered are insignificant compared to the task of restructuring CEE rurality, preparing it for EU membership²⁹. In every step of the policy making process (from the draft to the final version and throughout the subsequent documents on finance, implementation and co-ordination) the focus of SAPARD was increasingly narrowed down to agricultural restructuring, losing the scope of a wider rural development perspective. Administration and programming were devolved from the EU to the applicants, but on the country level a centralised system of institutions and administration had to be built (see Chapter 5. for detailed analysis). Rural Development Programmes were due to be written by the CEECs. However, through the list of eligible activities, the programming and evaluation process and the financial rules of the EAGGF Guarantee Section, a potentially very strict control by Brussels could be foreseen already before the launch of the programme. Existing EU policies and approaches, alternative to the ruling policy paradigm, are lacking from proposals to Central Europe. The lack of the LEADER approach from the official pre-accession strategy can be examined from this angle. The results of an experimental, broadly defined and controlled policy could well support the argument for measures, specially designed for the Central European problems. Furthermore, the spread of such an approach would mean the reinforcement of localities of the applicant countries and their connection with a growing European-wide network and the soft transfer of alternative development ideas. Such an evolution would be dysfunctional to the prevailing paradigm.

The process of eastern enlargement, as it was proposed in the Agenda 2000 and the pre-accession measures, is dominated by hard or coercive policy transfers. Moreover, most of these are direct or indirect coercive policy transfers, pushed by the EU and accepted by the applicant countries. Health, market or safety regulations are examples of direct coercive transfer - the *acquis communautaire*, which is required to be

²⁹ As a telling comparison, Austria alone - with its 0.4 million rural inhabitants and its 250 thousand agro/forestry workers - receives almost twice as much from the RDR budget, than all the ten CEE countries from SAPARD.

accepted and implemented by future Member States, includes many examples of transfers of this sort. Different subsidies and aids provided or promised by the EU can be classified as indirect coercive transfers. This money can only be spent to achieve objectives defined by the EU. Applicants need to build EU-compliant institutions and procedures to be able to access the money. Moreover, the requirement of additionality ties even domestic resources to EU objectives and procedures³⁰. Implementation is monitored, evaluated and controlled by the EU and the whole process is driven from the centre. The primary objective seems to be building a strong, Euro-compliant bureaucracy on a central or governmental level, which will be able to work with the complicated official system of the EU in the near future. This well matches the process, described by Dolowitz and Marsh (1996) when policy transfer, instead of introducing new ideas, simply reinforces the existing system, maintaining the status quo (see in 1.1. in detail).

There is a general agreement in the literature that the lack of complexity of a policy is crucial for its transferability. Differences in economy and political culture are also considered to be of primary importance. In the light of these factors, one can have doubts about the transferability of the CAP or the Structural Policies. They are highly complicated, even after the simplifying reform of the Agenda 2000, according to every component of complexity, suggested by Rose (1993), for example. They have multiple objectives; try to tackle different aspects of complicated social, economic and environmental matters; expect to have diverse effects; and are usually difficult to evaluate. They were designed to suit the needs of countries with significantly different social-economic circumstances and political cultures, compared to the Future Member States.

After the southern enlargement of the EU a major policy reform was undertaken, a whole new set of institutions and measures was created and added to the old system. It was not a simple extension (or coercive transfer) of existing policies to the New Member States, since the design of new policies was based on pilot schemes, run in

³⁰ According to PHARE regulations, for example, if a sub-project, within a single programme, has any proportion of EU funding in its budget, then EU financial regulations and procedures have to be applied to all its expenses. Therefore even their own money has to be spent through EU conform procedures (tendering, monitoring, accounting, etc.).

the applicant countries, i.e. a process of social learning. Nevertheless, there are serious criticisms about the social, economic and environmental effects of Structural and Cohesion policies in the Mediterranean Countries (Scott 1995, Syrett 1995). Compared to this, in the Agenda 2000 there is no intention to introduce anything like a significant parallel structure of policies designed to the special needs of the Central European Countries. Existing policies are simply imposed on the New Member States, without any significant modification. What are the prospects of a coercive policy transfer, described here, NOT to end up in policy failures and anomalies? According to this analysis, the current eastern enlargement is more likely to set back the reform of EU rural policies than to accelerate it.

Above, in connection with Agenda 2000 I identified an inherent contradiction between the rhetoric and policy practice of the EU. As the analysis showed here, this contradiction has been reproduced in the pre-accession policies especially concerning SAPARD. Nevertheless, besides hard policy transfers dominated by modernisation, a continuous flow of information and positive examples on the 'new paradigm' - in other words a soft policy transfer - can also be encountered. This originates from the EU and results in a clear process of social learning in CEE rural areas and policy-making. A main source of this is the rural development rhetoric of the EU and certain requirements (programming, social dialogue, partnership working, etc.) set as prerequisites to EU aid. The other important source comes from the positive example of the LEADER Programme and some other measures in the EU policy system. These parallel influences and their effects on CEE rurality will be analysed in connection with my Hungarian case study in the fourth chapter.

CHAPTER 2. INTEGRATED RURAL DEVELOPMENT

THE CONCEPT AND ITS OPERATION

In their article Van der Ploeg et al (2000) suggest that a new model of rural development that emerges slowly but persistently in both policy and practice should be followed by a paradigm shift in associated theory. They suggest that “there is a need for a new rural development paradigm that can help clarify how *new resource bases* are created, how the irrelevant is turned into a value and how, after combining with other resources, the newly emerging whole orientates to new needs, perspectives and interests.” (2000:399). They state that, the new rural development paradigm emerged as a set of responses to the old, modernisation paradigm - marking a clear divorce from the deterministic nature of the old order. Nevertheless, the new paradigm still has its roots in the past, since rural development is usually constructed on the back of existing production structures (Murdoch 2000). The new paradigm is first of all connected to those trends, which have been trying to solve problems arising from the modernisation paradigm that shaped the European rural economy and society in the post War period. Though it has also strong connections with cultural traditions and social networks that predate the recent modernisation period.

This chapter explores the elements of the new rural development paradigm. It is in two halves. The first half elaborates the concept of ‘integrated rural development’. It starts by looking at the characteristics and critique of endogenous development, as an approach contrary to the earlier paradigm. This is followed by examples from the literature on local development and agro-industrial (or rural) districts and the application of the network theory in this field. Then I explore rural values and various possibilities for their reconfiguration as resources for rural development. Finally I suggest a working definition for ‘integrated rural development’ to be used throughout this study.

The rest of the chapter - based on the literature and my examination - tries to illuminate some important terminologies, which are used in the subsequent analysis and offers a few new conceptions, as a contribution to the ‘new rural development

theory'. First I clarify what I mean by centre and periphery. Then various rural values, as possible resources for rural development, are explored. This is followed by a discussion of rural problems, differentiating between possible disadvantages caused by the lack of various types of access, and others resulting from the inadequate resource base of an area. The following two subsections introduce the central administrative and the local heuristic systems of rural development, then explore how the various types of rural disadvantages can be tackled through these system. The next section offers and analyses simple models of integrated and non-integrated development, trying to find the reason for frequent policy failures and come up with a suggestion for a more sufficient institutional arrangement. Finally, as an early introduction to my regional case study, I outline a unique development institution, which may help to break the vicious circle of policy failures, filling the institutional and knowledge gap between central policies and rural localities.

2.1. Arriving to the new rural development paradigm

2.1.1. Endogenous development

The notion of endogenous development, as suggested by Bassand et al. (1986), has been put forward in opposition to traditional understanding, or in other words the 'modernist' notion of development. Endogenous development is understood as the hypothesis that improvements in the socio-economic well being of disadvantaged areas can best be brought about by recognising and animating the collective resources of the territory itself (Ray 2000). According to Bassand (1982) "the new meaning of development, that is, qualitative and structural indicators, and not just quantitative and monetary measures, are used as criteria... [and] cultural, social, political, and ecological values as well as social costs and long term effects are combined" for endogenous development (cited in Brugger, 1986 p. 39.).

In the late 70s and early 80s considerable scepticism emerged about the effectiveness of conventional development policy instruments, and some regional development analysts were looking for alternatives for the then dominant regional development paradigm (Helmsing 2001). Walter Stöhr advocated selective spatial closure (Stöhr &

Fraser Taylor, 1981) and John Friedmann the agropolitan approach (Friedmann & Douglass, 1978). Although there are considerable differences between the two, they have in common the search for *endogenous* development alternatives based on *local* actors, resources and capacities.

This concept as a development approach was created as an alternative to the practice of central authorities in designing interventions which deal with sectors of social and economic life in isolation from each other and/or which assume that socio-economic problems can be solved by standard measures, regardless of location or culture. Here the emphasis has been very much upon what areas can do for themselves and support and assistance has been geared towards the enablement of local economic growth (OECD 1996). According to Lowe et al (1998:12) the basic characteristics of the endogenous model of rural development are as follows:

- Key principle - the specific resources of an area (natural, human and cultural) hold the key to its sustainable development;
- Dynamic force - local initiative and enterprise;
- Function of rural areas - diverse service economies;
- Major rural development problems - the limited capacity of areas and social groups to participate in economic and development activity;
- Focus of rural development - capacity building (skills, institutions and infrastructure) and overcoming social exclusion.

According to Ray (1997:345) the main characteristics of endogenous (or participatory) development are threefold. First, it sets development activity within a territorial rather than sectoral framework, with the scale of the territory being smaller than the nation-state. Second, economic and other development activities are reoriented to maximise the retention of benefits within the local territory by valorising and exploiting local resources – physical and human. Third, development is contextualised by focusing on the needs, capacities and perspectives of local people, meaning that a local area should acquire the capacity to assume some responsibility for bringing about its own socio-economic development. ‘Partnership working’ –

collaborative arrangements between public bodies or between the public, private and voluntary sectors - has been increasingly recognised as a mechanism to introduce and manage endogenous development (Ray 2000). The partners pool their resources in the pursuit of a common policy objective, in this case the socio economic regeneration of a territory. In theory, the partners cultivate consensual strategies and thereby integrate their separate responsibilities or contributions (Edwards et al, 1999).

As stated by Shortall and Shucksmith (1998:75), "development is not just about increasing goods and services provided and consumed by society. It also involves enabling communities to have greater control over their relationship with the environment and other communities." According to this approach empowerment, capacity building, carefully designed social animation and the provision of suitable training and development institutions through central policies are key elements of the system. According to Picchi (1994), certain political-institutional arrangements can also help endogenous development patterns. These include a rich network of services, provided by local administrations for economic sectors, planning mechanisms, aimed at strengthening development patterns and a stable climate for industrial development. Keane points out two main ways in which endogenous development differs from exogenous: first, it is seen not only as an economic concept, but also as a process dealing with the total human condition; and second it accepts numerous possible conceptions of development and pitches the objectives and paths on an appropriate local level (Keane 1990:291). He also says that the endogenous approach "represents a significant change from investment on physical capital to investment in developing the knowledge, the skills and the entrepreneurial abilities of the local population" (p.292).

The endogenous development approach has also, however, been seen to possess a number of weaknesses. Brugger (1986) states that there are significant gaps in the theory of endogenous development, though he suggests that they can be overcome through systematic analysis of practical experiences and can still be useful for policy makers (pp. 47). Nevertheless, later on this was seen as a weakness by Lowe et al (1995) who said that social theory has not been very successful in providing useful models to inform endogenous approaches. Slee (1994:191) also remarks that: "endogenous development is not so much a concept with clearly defined theoretical

roots but more a perspective on rural development, strongly underpinned by value judgements about desirable forms of development”.

One of the main criticisms by Lowe et al (1995) is that the endogenous approach can relegate whole areas into low growth trajectories, particularly if it has been their experience in the past. Brugger (1986) also suggests – based on the Swiss experience – that ‘too endogenous’, self-reliant development, which ignores external effects and global economic processes, can be highly damaging for the regional economy and society (pp. 50). A large body of literature, discussing the implementation of subsequent rounds of the LEADER Programme warned about possible problems concerning social exclusion and the legitimacy of new social groupings and associations participating in local development (see 1.2.5. in this study as well as Shortall and Shucksmith 1998, Ray 1996, Kearney 1994 and others). Participatory approaches to rural development have been sought to ensure the efficient use of rural resources, but largely these have tended to provide scope for local domination of decision-making influence by powerful local actors or have been undermined by local apathy (Lowe et al 1998; Ward & Nicholas 1998).

Another criticism by Slee (1994) is that concerning state policies, local areas remained almost as dependent under the endogenous approach as they used to be in the previous regime. Development agencies realised that rural areas may possess a growth potential of their own just waiting to be unlocked. As a result, the same agencies and officials who once favoured exogenous development started enthusiastically promoting bottom-up approaches. Slee states that: “Development agencies have thus adapted their modus operandi, without altering their fundamental aims and objectives. They have recognised that long-run developmental gains are likely to be secured more effectively by encouraging local entrepreneurship than by inducing footloose branch-plants into the area. The same packages of infrastructure development, grant-aid, loan finance and business and community support services are still in evidence, but the agencies have learned to adapt elements to local social and cultural context” (Slee 1994:193). Lowe et al (1995) supplement these criticisms saying that the endogenous development approach often does not address the important question of how local circuits of production, consumption and meaning interact with extra-local circuits. Furthermore they suggest that the crucial distinction

should be between local and external control of development processes, and that an institutional focus which specifies precisely how the links between local actors and those situated elsewhere are established and the nature of the relations specified is a useful way to proceed. This approach, they conclude, recasts endogenous and exogenous concerns into the analysis of economic relations as power relations (Lowe et al 1995:94).

2.1.2. Agro- industrial (rural) districts

The rural district literature applies the old concept of industrial districts in the rural development arena (Marshall 1890 and 1927 cf. Fanfani 1994; Lowe et al 1995). This literature, furthering the endogenous approach, offers a more complex understanding of the connection between local and extra-local factors of development. Authors, through examples of economically successful rural districts, attempt to account for the success of industrial districts in endogenous development. They consider long standing socio-economic networks, originating from the agricultural past, as a crucial factor for success. "Collective action enables small entrepreneurs to mobilise social relations to improve their economic performance and create new opportunities for growth. Successful cases of rural development demonstrate that collective action produces a local framework in which a constructed environment, institutions, symbols, and routines facilitate the activities of small firms by giving them access to resources that could not be accessed by individual action alone" (Brunori and Rossi 2000:409).

Lundvall (1992 & 1993) leads the way in stating that the capacity of local areas to engage in processes of learning and innovation through networks is subject to underlying supportive influences of the local cultural context fortified by a certain institutional thickness. Some areas are more suited to network development and hence will benefit more from endogenous development than other more remote areas. Rural industrial districts are understood in the framework of flexible specialisation and a growing integration between food production, processing and retailing. According to Lowe et al (1995:95) "closely networked relations between local farms, processors, distributors and retailers make for flexibility in adapting to technological and market changes, but at the same time, allow value-added in the non-agricultural aspects of the

food chain to remain within the regional economy, rather than being captured by exogenous, and often multi-national, food companies.” Successful innovation is bound up with the “associational capacity” of local actors (Cooke & Morgan 1998).

“The logic of the industrial district is self-reinforcing. The more distinctive each firm is the more it depends on the success of other firms’ products to complement its own. Repetitive contracting, embedded in local social relationships, cemented by kinship, religion and politics, encourages reciprocity...The vibrancy of the districts is not due to their geography alone, but to their social practices” (Powell & Smith-Doerr 1994: 386). This may suggest that rural areas may be endowed with greater development potential, where rural actors are more embedded in local cultures and social structures (Brunori & Rossi 2000; Brusco 1996; Murdoch 2000; Paloscia 1991). Fanfani (1994) identifies over sixty Italian districts that had been successful through endogenous development and claims that the success of agro-industrial districts originates from the relationship between agricultural specialisation and strong local artisanship. Examples of these local development triumphs are in the production of poultry and pork meat and Parmesan cheese.

Though, rural industrial districts need not necessarily specialise in food production. Cooke & Morgan (1998) show how local networks of farm families can seek mutual benefits through co-operation and yield rural development that is sustainable and innovative, through the case of Capri in Emilia-Romagna. Here social networks provided a useful development resource throughout the 20th Century. Initially, these families co-operated in the manufacture of straw hats until the market collapsed in the 1950s. Since then they have diversified into the manufacturing of textiles, furniture, leather and food.

According to OECD (1996), there are four key requirements for the success of a rural district, understood as a socio-economic network: flexibility, competences, efficiency and synergy. Flexibility is needed to respond to, and to pre-empt through strategic planning, changes in the market: This would lead to diversification from single sector dependency to a broader rural economy. Shared competencies may be discovered with other firms in the local area and beyond through network linkages; the exchange of information may aid the development of common business strategies, identifying best practice and moving towards greater efficiency. Efficiency includes developing

economies of scale through the pooling of ideas and resources to reach mutual aims, for example encouraging joint processing, distribution and retailing of production in order to ensure that value-added remains in the local area and is not swallowed up by middlemen en route to the market. Synergy is best achieved where information, innovation and business transactions flow most freely. Unlike in Italian success stories, most regions are not as endowed with independent artisan associations. However networks can offer an alternative, “enabling very small producers to collectively purchase or contract for business functions, locate new markets, and share technologies.” (OECD 1996: 38).

Nevertheless, not all rural regions have the chance to become successful agro-industrial districts, working their way up with no (or with hardly any) external help. As it appears from the literature, only in rural areas with existing long-standing agricultural or processing networks have bottom-up innovations proved successful without significant government intervention. “Innovations have failed when introduced to societies with non-supportive cultural and institutional traditions.” (Cécora 1999:6) It should be recognised that the exceptional nature of these successful case studies may suggest their specificity to the locality, thereby reducing the efficacy of transfer of endogenous rural development models across different contexts. Varied socio-economic and geographic conditions of localities as well as the nature of their external relation, results in uneven development. As Lipietz (1993) puts it, the current socio-economic development of European rural areas results in a “leopard skin” quality with some areas becoming incorporated into dynamic sectors and systems while others are left outside (Saraceno 1994). “This mosaic of regional development draws our attention to the various ways in which new economies are superimposed on the old” (Murdoch 2000:415).

2.1.3. The ‘network paradigm’ in rural development theory – the ‘Third way’?

Given this mosaic, it may be that endogenous and exogenous approaches are not necessarily mutually exclusive or antagonistic. A proposed theoretical solution to bridge the perceived divide is to harness the rural development potential of networked relationships (Amin & Thrift 1995; Cooke & Morgan 1993; Murdoch 2000). However, this new understanding of networks is somewhat different from that used in

endogenous development theory to describe a relationship between local firms and social actors, based on trust, reciprocity and mutual understanding that lays the foundations for local economic development. Instead, the network paradigm seeks to establish a 'third way' (Lowe et al 1995) or synthesis between endogenous (local, bottom-up) and exogenous (extra-local, top-down) links in order to foster learning and innovation processes (OECD 1993 & 1996). These are deemed to be central to economic growth by many authors (Camagni 1995; Capello 1996; Cooke & Morgan 1993; Powell 1990; Powell & Smith-Doerr 1994). From their work, it appears that networks offer the most appropriate means through which to deliver innovation and learning. Powell (1990) argues that it is the open-ended, relational features of networks that facilitates transfer and learning of new knowledge and skills. However, bringing back some elements from the earlier understanding of networks, others say that these goals prove easier to accomplish in flexible networks that are built on trust (Powell & Smith-Doerr 1994; OECD 1996).

Latour (1986) sees networks as sets of power relations where power lies in the links that bind the actors and entities together. Lowe et al (1995) follow this perspective to identify the asymmetries of power and hence the inequalities in the benefits gained by local firms as a result of networks. Others state that: "a network is generally defined as a specific type of relation linking a defined set of persons, objects or events...Different types of relations identify different networks...[T]he structure of relations among actors and the location of individual actors in the network have important behavioural, perceptual and attitudinal consequences both for the individual units and for the system as a whole" (Knoke & Kuklinski 1990:175-6). Essentially the network provides a good framework for analysis. Some commentators go further to suggest that networks should be perceived as key aspects of innovation and their existence or non-existence can be a key determinant in success or failure (Murdoch & Morgan 1998). As yet though there is little empirical evidence from rural areas relating to the role of networks in facilitating learning and innovation. Proponents of the approach refer to the same set of examples in support of their perspective, largely in review articles. Nevertheless, from these few cases, the potential transfer of lessons has inspired many academics to analyse the importance of such networks.

The crucial issue, as Van der Ploeg & Long (1994) suggest, is the balance of 'internal' and 'external' elements. Therefore, the contribution of networks is to focus our "attention upon successful mixtures of 'internal' and 'external' economic linkages. Unlike the idea of the 'district', which tends to concentrate on local or 'bottom-up' development, the notion of 'network' forces us to identify how local and non-local linkages facilitate success." Even though some networks might prove to be "regionally specific", they are likely, particularly in the EU context to be "linked into complex relations with other organisations outside the region" (OECD, 1996). In this way, the network paradigm provides a dynamic and flexible structure to integrate the internal and external factors that will promote greater innovation and improved rural development even in remote areas. The difficulties are to strike a balance between continuity of routines and creative change and between internal and external involvement.

To clarify these questions, Murdoch (2000) seeks to identify the role of networks in the formulation of rural development strategies. For this he identifies two axes of networks: vertical and horizontal. Vertical networks are political economic interdependencies that are formed with rural businesses as a result of the food chain. Working examples of these networks can be found in the 'hot-spots' of European agricultural and food industries, where intensive production and processing (organised into vertical integration often by multinational companies) has been and is likely to remain the most influential factor for the local economy. Horizontal networks are spatially determined and imply the co-ordination of a range of activities in a local area, facilitating access to markets. This entails "a strengthening of local productive capabilities in ways that benefit the rural economy as a whole" (Murdoch, 2000: 412). Examples of these networks can be found in successful rural districts, where network-based local development could create a sound basis for competition in the global economy, without significant external intervention.

Nevertheless, Murdoch (2000) - rejecting the network paradigm as the 'third way for rural development' - does not choose to link these two networks together into an integrated system, but rather just highlights where these networks are useful. He differentiates three types of rurality. The first type ("clusters of innovation") is dominated by horizontal networks, small- and medium-sized enterprises, trustful

relationships and co-operation – such as the ‘Third Italy’. He suggests that in these areas the literature on innovation networks and learning regions is applicable and can demonstrate how economic success can be maintained. The second type (“hotspots of standardisation”) is dominated by vertical networks, intensive forms of agricultural production and trans-national networks of the food sector. These areas can develop their economic and social structure based on mainly endogenous resources and can penetrate global markets with their products. However, as suggested by Murdoch, in these areas the new ‘network paradigm’ is not applicable, development and socio-economic processes can better be explained with commodity chain analysis. In the third type of rural areas neither horizontal nor vertical networks work effectively. These areas (much of European rurality) have lost their resources during the industrialisation period and have become reliant on continued state assistance (in terms of both agricultural and non-agricultural support). These areas have little or no chance to improve their situation based on endogenous resources and need external intervention through rural development agencies. As stated by Murdoch, intervention complying with the network paradigm (support in capacity building, empowerment, soft infrastructure, etc.) is not necessarily appropriate in these areas, since it might reinforce existing weaknesses. Thus, besides the provision of ‘soft infrastructure’, other more traditional state support should also be applied.

Another study by OECD (1996) offers a different typology of rural areas, according to the degree of their integration into the global economy. Three areas of rural diversity are outlined: integrated, intermediate and remote. In economically integrated rural areas there is a broad range of technically advanced firms that possess the capacity to support vertically integrated networks and supplier networks, even without government encouragement. Nevertheless, since services, expertise and capital are easy to access in these areas, firms may not view horizontal networks to be as critical as in less populated areas. In intermediate areas, although blessed with some diversity of production, there are likely to be stronger links between firms in the dominant sector, usually linked to commodity production. Traditional agricultural co-operatives choose to establish processing and marketing measures collectively. However, other firms outside traditional vertical networks may choose to form their own networks to provide better information, reduce transaction costs or to enter new markets. Remote rural areas are the least likely to develop networks, but when they do, based on strong

local connections, it often provides for better external linkages to other firms and customers outside their region. The study argues that the network approach offers many opportunities for rural development, such as: adding value; creating economies of scale and scope; diversifying regional economies and creating synergy among micro-enterprises.

As stated by many authors, the state (or the political/economic centre) has a role to play in promoting rural development: encouraging the development of networks, entrepreneurial culture, assisting with economic transformation and providing resources to enhance co-operation between local actors. It may be appropriate for government to intervene at various points in the vertical network. However, in remote areas where vertical networks have been unsuccessful in making a contribution to local rural development in the past, what sort of government intervention can stimulate the growth of successful networks for joint learning and knowledge transfer to allow successful innovation and development in the future? According to the OECD (1995), this may be accomplished through four measures:

- Direct aid targets specific enterprises and provides assistance in the form of subsidies, aid for technological innovation, training and job creation;
- Indirect aid is defined to strengthen the overall economic environment of a local area for the benefit of existing firms. In providing services to facilitate technology transfer, marketing assistance and dissemination of information, it is likely to be the most effective general rural development tool;
- Enhancing human resources entails policies and programmes that aim to improve levels of education and training amongst the workforce and to encourage entrepreneurial behaviour; and
- Infrastructure programmes that usually involve the construction of roads, sewers, telephone lines and public buildings. The provision of infrastructure should increase the level of services and amenities available to the local population and aid the establishment of economic enterprises.

Formal institutions need to identify important links to the development potential offered at the local level. This has been considered important by Bazin & Roux (1995) in their study of remote rural areas around the Mediterranean. They identify several variables that support local economic capacities. These include:

- Achievement of market position – avoiding dependence on state funding
- Self-reliance of local actors – due to the local and small-scale nature of firms
- Firms should control production, processing and marketing in house
- Use of available local resources: natural, biological and human in production
- Producer group cohesion and solidarity supporting the promotion of images of local quality of products.
- The positive interaction between local and outside institutions in interventions.
- The successful generation of local development often required grants, investments, technical assistance and co-ordination from outside the target area.

2.1.4. Multifunctional agriculture as a way for rural development

According to a number of authors (Lowe and Buller 2002; Durand and Guido 2002; Van der Ploeg and Roep 2002 and others) ‘multifunctionality’ could also be considered as a ‘third way’ for rural development, alternative to the opposing liberalist and interventionist models. Nevertheless, multifunctionality differs from the rural development approach (referred to as the ‘new paradigm’, the ‘network paradigm’ or ‘integrated rural development’ by these authors) in that it remains primarily targeted upon agriculture and agricultural enterprises.

Some authors - underlining the importance of the agricultural sector - suggest that, although constructed under the new paradigm, agriculture and farmers are still central to rural development success. Van der Ploeg et al (2000), for example, building on the literature and practical experiences agree that rural development processes can involve many different actors, yet reject the notion that rural development can only proceed through the ‘expropriation’ of agriculture. They state that [integrated] “rural development can be constructed very effectively using the innovativeness and entrepreneurial skills present in the agricultural sector itself.” (401) Furthermore, rural development is a “new development model for the agricultural sector” that “is reconstructing the eroded economic base of both the rural economy and the farm enterprise” (395); and can be seen as “newly emerging livelihood strategies developed by rural households in their attempt to increase the ‘pool’ of livelihood assets at their disposal” (396). As stated by their approach, new rural development practices break

away from the specialisation of the modernisation period, where agricultural production was excluded from alternative activities. Rural development is understood here as a kind of 'repeasantisation' of European farming where "the highly diversified flow of outputs, the re-grounding of productive activities in relatively autonomous and historically guaranteed types of reproduction, and increasing control over the labour process, results in higher levels of technical efficiency" (403).

2.1.5. Rural disadvantages - access and resources

We said earlier that rural areas need protection because, resulting from a different development trajectory, they have serious comparative disadvantages in the context of growing global market competition. One of the main aims of rural development is clearly to eliminate or overcome these comparative disadvantages, to ensure fair competition and social and economic cohesion between different areas. The current 'comparative disadvantages' originate from two different sources³¹:

- one is underdevelopment of different infrastructures, resulting in limited communication of people, products, money and information; I will call these *access-type disadvantages*;
- the other is the limited ability and resources to produce goods and services, saleable on the global market; I will call these *resource-type disadvantages*.

Access-type disadvantages are usually visible and quantifiable results of uneven development, based on imperfect resources. They limit different types of access to, and from, peripheral areas, namely: *physical*; *economic*; and *political (or policy) access*.

The most obvious example is bad *physical access*, due to poor physical infrastructure (roads, telecommunications, amenities, etc.), which sets strong constraints on the movement of people, goods and information, limiting 'physical access'. For example

³¹ In fact, they both originate from being on a different development trajectory, experiencing slower social and economic change, having weak representation in political decision-making and gradually losing natural, economic and human resources to the benefit of the 'centre'. However, the two areas of

the lack of good roads limits: the possibility of commuting from a peripheral area into a nearby industrial centre, the transport of goods produced or the number of tourists attracted. On the other hand, it also limits the attractiveness of an area for industrial inward investment. The lack of so-called soft infrastructure (such as: business and financial services; educational institutions; or health services) is less visible, but causes similar results. It limits the movement of money (investment) and businesses, again, into and out of these areas, constraining *economic access*. For example, the lack of local banks and personal connections to them limits entrepreneurs to access financial resources and the banks access to their potential customers. Large outside investors usually use their central facilities for financial services, often even build their own training centres, but the lack of these services can easily become an obstacle for smaller investors. The third type of deficiency is due to the shortage of public and civic institutions, such as: public administration; organised interest groups; various agencies and umbrella organisations for civil societies; development associations; and often even representation of political parties. The lack of these hinders *policy access*, or the ability of central organisations to reach the peripheral areas to enforce regulations or to offer resources for development. Without a functioning local administration it is impossible to maintain even basic services, or to distribute government benefits to those in need. Without working civil society it is difficult to know what people of a certain locality wish for their future. The consequence of all of these deficiencies is *limited access*, resulting in limited communication (of capital, goods, people, information and policies) into and from the peripheral areas. This causes the exclusion of these areas from mainstream economic, political and cultural life and maintains their underdeveloped status.

Resource-type disadvantages of rural areas are the result of their long-term economic and political dependency on urban centres, their unfavourable economic structure and/or geographical location and their limited access to goods, information and central resources. These disadvantages limit the ability of rural areas to produce goods and services saleable on the global market and they could be classified as low *financial, human, and institutional resources*.

disadvantage, described here, represent different type of problems and need different approaches and solutions.

The most obvious example of a resource-type disadvantage is the lack of *financial resources*. In peripheral areas, businesses, people and even local authorities are poorer and have limited capacity. Capital accumulation (if there is any) is slow in primary production, the risk is very high and there are often other factors limiting the ability of entrepreneurs and local authorities to find capital for investment³². The scarcity of different types of infrastructure can also be understood as a resource-type disadvantage, if it sets constraints on local production and the development of businesses³³. Another group of disadvantages arises from the weakness of *human resources*. Rural areas are often sparsely populated, providing less manpower and purchasing power than urban ones. Apart from numbers, the make-up of the population can also be an impediment with a high proportion of poorly educated, ageing residents and, in the CEECs at least, disadvantaged ethnic minorities. As a result of severe out-migration, whole generations can be absent in certain rural localities and those who left were usually the most educated and resourceful young members of the community. As a result of weak human resources and long-term economic and political dependency, there is often a weak culture of entrepreneurship and community resources can be on a low level (see 2.1.5.). In general, there is a lower capacity for innovation and learning than in urban areas³⁴. *Institutional resources*, or a certain thickness of local institutions (formal and informal), (argued by Amin and Thrift (1994) and others) can also be absent. Moreover, in those areas where human resources are the most eroded, even a culture of mutual trust and willingness to co-operate can be missing, making it difficult to initiate or carry out any sort of development. The shortage of public and civil institutions, also mentioned as an access-type disadvantage, inhibits the ability of backward areas to recognise and

³² In Hungary, for example, agricultural land, livestock or machinery cannot serve as a deposit for bank loans. This makes it simply impossible for many agricultural entrepreneurs to get a loan. Much local infrastructural development has failed, because local authorities were unable to provide even 10 or 20% of the investment. Therefore, according to the generally applied additionality requirement, they were not eligible for government or PHARE aid. The lack of money is most often quoted as the main reason for backwardness of rural areas.

³³ The lack of roads between villages, for example, limits local communication, the development of social networks, co-operation and businesses. Missing amenities and tourism infrastructure (hotels, B&Bs, restaurants, craft shops) makes it impossible to encourage tourism potential. The lack of banks, financial and advisory services or just a local post and other offices in an area makes the running of any business more costly and time consuming.

³⁴ Nevertheless, in other cases innovation and flexibility, co-operation and learning are the main factors for flourishing rural economies.

efficiently express their needs and to attract aid and financial resources³⁵. These *resource-type disadvantages* would disable rural areas in global competition, even if they have appropriate access to the markets.

Amongst the core EU policies, promoting the cohesion of underdeveloped areas, measures aimed at access-type disadvantages predominate. Resource development and empowerment of backward areas have always remained marginal targets in the policy arena. However, access is a two-way concept. Isolation can be very damaging for a locality, but it provides some protection against global competition. Suddenly removing this protection without reinforcing the local economy can cause serious further damage. Access, therefore, might be a necessary, but is certainly not a sufficient condition for the development of backward rural areas. Promoting the reinforcement and utilisation of local resources from central sources is difficult and problematic but critical for rural development and a lack of such resources may result in policy failures.

2.1.6. The reconfiguration of rural values as local development resources

Rural areas have traditionally been a field for primary production. Additionally, they have not only supplied industrial areas with food and raw materials, but used to be the main source of human resources and original capital accumulation, which provided the basis for the economic and demographic growth of the *centre*. At the same time, there are a number of values which are generally considered to be positive and have been sustained better in rural, than in urban areas. These *rural values* (clean environment, natural beauty, cultural traditions, etc.) 'have always been there' in the countryside. However, until primary production was able to provide a solid base for the rural economy, these values were not considered to be important or special. They were natural parts of rural life and nobody thought about them as important resources for economic development.

³⁵ In the world of bidding and competitive applications for almost every available resource it is crucial to have local partnerships and a well functioning local development organisation, preferably with a somewhat charismatic leader. To reach positive results it is also essential to have at least a degree of consensus about the main direction and areas of local development.

Nevertheless, as shown in the previous chapter, primary production has lost its weight within national economies³⁶ over time. Moreover, many rural areas - lacking a sufficient economic basis - continue losing their population and are in danger of becoming deserted or losing their original character [rural values] completely. To overcome the socio-economic crisis of rural areas new economic bases were needed. At the same time, however, *rural values* gained new importance for affluent western societies and became 'marketable assets' for local rural economies. Yet, these values can rarely be marketed directly. They need to be converted – or with a frequently referenced expression reconfigured - into development resources. Van der Ploeg et al (2000) states that 'old rural resources [values]' (land, eco-systems, landscape, animals, social networks, craftsmanship, etc.) should be reconsidered in the context of rural development. As Molle and Cappellin (1988, p. 7) stated: "the development of the local economy depends on its capacity to transfer its resources from old activities to new ones, notably by mastering new production technologies" (cited in Terluin, 2003, p.331). The authors conclude that rural development should consider both, newly emerging and historically rooted realities. Old rural values, therefore, after their reconfiguration, can be used as capital assets -in other words development resources - under the new paradigm³⁷.

Bryden (1998, cited in Terluin, 2003) elaborates the theory of immobile resources for creating competitive advantages for rural areas. He suggests that with the process of globalisation the mobility of traditional resources for economic development (such as capital, information, skilled labour, etc.) was increased to such an extent, that they do not create any more a solid bases for the economic development of rural areas. He argues that rural areas should base their development strategy on immobile resources, which are not open for competition (such as social capital, cultural capital, environmental capital and local knowledge capital).

³⁶ Agriculture, the main traditional economic factor in rural areas, concerning its share in GDP and employment, has become almost irrelevant in the more developed EU Member States. However, in the Southern Countries, especially in terms of employment, agriculture is still an important sector.

³⁷ Through this study I use two expressions for those special assets of rural areas which result from the countryside being on a different development trajectory compared to urban areas. They are entitled as *rural values*, when we talk about their origin, their possible loss or their protection. Though they are called as *rural resources*, when some of these *values* are considered as marketable assets or possible *resources* for local socio-economic development in rural areas. Therefore rural resources are those rural values which are converted and utilised during rural development processes.

The transformation of the countryside has been recognised by western societies and has resulted in a 'rural renaissance' and a change in the perception of rurality in general³⁸. Today, the political *centre* of Europe perceives rural values as important assets for the whole society and would like to sustain them for the long term. The traditional foci on food production and safeguarding farm incomes as the main functions of rural areas have been replaced by the provision of public goods (such as clean environment, open space etc.) for the whole society. In Western Europe, rural tourism (the provision of services, leisure activities and living space) is becoming a core economic activity for the countryside. A study by Harvey (2001) on the effects of the last 'foot and mouth' epidemic on the British countryside pointed out that agriculture only accounted for ten percent of the losses of the rural economy as a whole. The fact that 'foot and mouth', being essentially a crisis of primary production, still had most of its effects on other areas of the rural economy (tourism being particularly affected), emphasises the great extent of recent changes and served to raise strongly the profile of a *new rural economy*, which is not based on primary production any more, but on special assets of the countryside. (Lowe et al. 2001).

Concerning this process, a number of questions could be raised: What are the most important *rural values*? From where do they originate? How and by whom are they valorised? What benefit can they bring to an area? How could they be sustained for the future? How could/should they be reconfigured to be utilised as resources for rural development?

To answer these questions, first I suggest classifying rural values into three main categories:

- ecological values
(clean environment, biodiversity, possibility for the production of clean and healthy food, good productive conditions for high quality, specific agricultural products, open space, natural and cultural³⁹ landscapes)

³⁸ The most visible signs of this are the growing counterurbanisation and rural tourism in Western Europe. Rural areas in general are getting more attention and more voice through democratic procedures as well as simply through well connected newcomers.

³⁹ Cultural landscapes are historical results of human activities, especially agriculture and animal husbandry.

- cultural values
(rural culture, folklore and the built environment, local cuisine, arts and crafts, locally specific products and production methods, minority languages, traditional ways of life)
- community values
(social networks, kinship relations, mutual trust and understanding, special ways of communication)

Ecological values

Ecological values, until quite recently, were not considered to be important. Biodiversity, clean water and open spaces, seemed to be in 'endless supply' throughout rural and urban places of Europe. However, especially during the 20th century, human activities (construction work, agriculture, industrial production of goods and services) have diminished ecological values to such an extent that they have become inaccessible to much of society. At the same time, western societies reached a level of development and economic well being, where people could afford to become aware of these problems⁴⁰. They had money, time and physical possibility to access nature, but natural values were rapidly disappearing from their close environment. All these factors paved the way for green consumerism and other green movements of recent decades. Politicians and policy makers recognised problems and the strong social demand for sustainable solution. As a result, environmental standards were set, and many programmes launched to protect remaining values and where possible to reverse the damage. Environmentalism, from being a revolutionary idea, has become mainstream policy and natural values are recognised as crucial public goods, which should be maintained for the future. However, when it comes to conflicts between long term environmental sustainability and short term economic and

⁴⁰ In certain parts of Africa, for example, where there is not enough water and basic food, somewhat higher nitrate content in the drinking water, obviously, does not seem to be quite the same problem than in Germany. While the main danger is dying of hunger, there is probably no demand for expensive, but 'clean', ecological food products.

political profit, central policies and directives often prove to be 'half hearted' and inefficient⁴¹.

Agricultural production, depending on its kind, can both threaten and maintain environmental values. Consequences of over-intensified production (pollution of water and soil, erosion, etc.) can cause irreversible damage, seriously reducing biodiversity and resulting in socio-economic problems. At the same time, centrally supported environmental friendly agriculture providing livelihoods for local people can maintain social structures as well as cultural landscapes, flora and fauna - all results of a symbiotic relationship between nature and human activities⁴². Environmental issues can be considered as constraints as well as resources for agriculture and rural development, depending on the approach taken. For a development philosophy, building on intensive, industrial agricultural production and processing industry, environmental rules that protect natural assets may be obstacles in the way of making profits. In contrast, for a sustainable, integrated development approach they can even be the main resources for a particular area, especially in the light of the expected increase in support for agri-environmental and rural development policies.

For rural development, therefore, environmental values provide one of the most important resources, hallmarked with the expression of 'multifunctionality' or 'multifunctional agriculture'. The multifunctionality of agriculture is defined by Durand and Huylenbroeck (2002:1) "as the joint production of commodities and non-commodities by the agricultural sector." Agriculture, unlike in the modernisation paradigm, is considered to have multiple roles, such as: to perform its market function, providing customers and the processing industry with healthy, high quality food and renewable materials; to carry out its environmental functions, ensuring the sustainable use of natural resources, safeguarding the wide variety of ecosystems and performing new functions for which there is increasing public demand, such as

⁴¹ There are plenty of examples for this: further increase of green-house gas emission or the repeated failure of an effective, ratified, worldwide agreement on sustainable strategy in Rio, Kyoto and, most recently, in Johannesburg are to be mentioned here.

⁴² For EU examples see 1.2. and the 'multifunctionality argument' 2.1.4.

tourism or in the social sector and; to play a major role in providing employment in rural areas (Commission 1999/3).

The EU, as a central principle to legitimate further support of agriculture, has adopted the concept of multifunctional land use. “Central to multifunctionality as a funding paradigm is the notion that agriculture provides not only ‘private’ or tradable goods but also public goods, the costs of whose provision cannot be met by market mechanisms. Hence, if they are to be retained and promoted in the public interest, public funds must be reallocated to them” (Buller 2002:12). This approach provides legitimacy for a range of EU policies and funding schemes, such as agri-environmental support; through this it has had considerable influence on the structure of CAP support, delivering financial aid to the farmers of backward rural areas.

Socio-cultural values

Rural culture, alongside its economy and society, has remained more traditional than its urban counterpart. In a modernising and globalising world this ‘traditionality’ was (and still is) often seen as the sign of (or even the reason for) backwardness and underdevelopment (Tucker 1999). Rural people, for many years, tried to ‘modernise’ their lives and get rid of signs of traditional culture. As a result, the richness of this culture could only survive in the most isolated regions, and/or in those places where it had particular political functions usually connected to territorial or national identity⁴³. Nevertheless, the rural renaissance of the last decades has led to the rediscovery of rural culture. Special, high quality agricultural products, local cuisine, folk music, minority languages, built environment, arts and crafts have become valuable resources for the so called new ‘culture economy’ - a central term for the new rural development literature (Ray 1998/2 and 2001). The main idea behind this term is that the rural

⁴³ In Hungary, for example, most traditional peasant houses were replaced or modernised in the ‘70s. In remote, poor villages, however, it was often officially forbidden to build new houses, therefore, in these locations the traditional built environment has usually survived until now. Another example: in Romania, Hungarian national minorities were strongly oppressed under the communist regime. They used their distinctive folk culture and religion to reinforce their national identity and cultural separatism. Together with their economic and geographic isolation this resulted in the survival of an extremely rich Hungarian folk culture (music, dance, costumes, customs, etc.) in Transylvania. During the last ten years decreasing repression, opening borders, strengthening connections with Hungary, possibilities to work abroad and the appearance of satellite television have brought a slightly better standard of living, but have also caused vast damage to local culture and social networks.

economy is moving away from traditional standardised primary production into a direction, where economic development is increasingly based on local cultural repertoires, identity and territorial strategies. Thus, rural localities can greatly increase the added value of their products through connecting them to local cultural traditions, emphasising their unique and peculiar nature. “The idea of culture economies comes from three sources: the changing nature of consumer capitalism, the trajectory of rural development policy in the EU, and the growth of regionalism as a European phenomenon” (Ray 2001:17). Proponents of this approach suggest yet another term for describing the ‘third way’: ‘neo-endogenous development’ – which is used to indicate that ‘true endogenous development’ is an unachievable ideal and that ‘the extra-local’ has to be considered when planning rural development.

With the spreading of ethno/cultural/green tourism, the emerging new market for locally specific products and services has provided a new possibility for livelihoods and economic activities, exactly in the economically most backward rural locations. Once deserted, remote villages are reborn and become favourite tourist destinations⁴⁴. Economically better off, but culturally poorer areas try to rebuild their cultural identity, digging out old, forgotten customs, recipes and traditional products, to be able to participate in this business. This was acknowledged by policy makers as a possibility for solving rural problems. To reinforce the process, many rural regeneration programmes have been launched all over Europe. All this has resulted in the revaluation of rural cultural values: from being a sign of backwardness, they became marketable assets, the basis for a new rural economy. Rural people and the wider society started to value rural cultural traditions again. However, similarly to environmental values, this process is not without conflicts and contradictions, especially in the context of counterurbanisation (Cloke 1993, Murdoch 1997, Woodward, 1996). Local people and newcomers from cities often have varying value systems and very different ideas about the necessities of preservation and

⁴⁴ In Hungarian villages, many old, but modernised houses are reconstructed again in traditional style, usually by well off urban newcomers. Folk music and dances in Transylvania, after deepening decline, was reborn again, and today old Romanian gipsy musicians have successful tours all over Europe and the USA.

development⁴⁵. This can result in the preservation of some cultural values, but the inevitable loss of others. If original dwellers are forced out of their villages by high property prices, then the built environment can be preserved. However, incoming, affluent city workers or pensioners will not maintain other, equally valuable aspects of traditional rural culture and community life: old production methods, minority languages and other values. These may be lost for ever, resulting in a preserved landscape and built environment, but otherwise an entirely suburbanised society – such as that found in much of Southern England by Marsden et al (1993).

Community values

Community values are also often attributed to rurality. Social networks, kinship relations, mutual trust and understanding are important to all human communities, regardless to their location. However, they seem to be better sustained in more traditional (or less modernised) societies (Tonnie 1972), and especially connected to small scale, traditional agriculture (OECD 1996) so are easier to find in rural than in urban areas. A small village where everybody knows each other and says hello even to strangers can be pretty attractive to ‘post-modern, alienated city dwellers’. On the other hand, strong social networks and trust can make the basis for co-operation in social and economic activities⁴⁶. In fact, community values - named as ‘networks’, ‘mutual trust’, ‘collective action’, ‘associational capacity’ or ‘social practices’ by authors cited earlier in this chapter – seem to be essential circumstances for ‘new rural development activities’, and their lack in certain areas can seriously limit the possibilities of local rural development.

With the long erosion of human resources in many rural areas, social networks and kinship relations disappeared or were weakened. Community values, therefore, are different from the two other forms of values. As it was argued before, the richest

⁴⁵ Well off people, buying second (or first) homes in remote villages, usually do not want tourism or industrial development in ‘their village’. They keep their connections and income in the cities, hardly need local services and want to stop further development. Indigenous people, on the contrary, want to make a living through marketing local cultural and environmental values, and would like to improve local services and other conditions of everyday life.

⁴⁶ Living and making business in a small rural locality friendship, acquaintance, kinship relations, and respect for the opinion of family and the wider public is likely to reduce the possibility of fraud greatly. It is a bad idea to cheat your neighbour...

ecological and cultural values can be found in the most isolated areas, which were left out of mainstream development. Nevertheless, remote places, for the same reason, were also likely to lose most of their human resources and social networks, which is a serious obstacle for rural development today.

Another important difference is that, while ecological and cultural values became 'marketable assets' (or part of local development repertoires (Ray 2000) in the new rural economy, and are often 'taken away' by external investors. community values are the inherent 'property' of the indigenous population. Houses land, even cultural attractions can be sold for money, on the contrary, 'kinship relations', 'mutual trust' or 'social practices' cannot be bought by newcomers and can only be of advantage to the 'locals' and to those who become truly integrated into local society.

A third difference is that, while ecological and cultural values can be directly protected and supported by central regulations and policies, community values are hard to capture and extremely difficult to support externally. However, with the recently established trans-national networks of local development groups, originating from the EU LEADER Programme, an important new aspect appeared in the European rural development arena (for details see 1.2.5.). A trans-national set of networks is emerging here with strong values and growing influence, supported by European programmes and new communication technology. Local groups, participating in this network can change experiences, get up to date information and can even have some indirect political influence on domestic and EU policy matters (Esparcia 2000, Ray 2001). All this can greatly empower local communities and can reinforce community values. This trans-national network also provides policy makers (*the political centre*) with an 'access point', through which they can (indirectly but effectively) help local communities.

Consequently, the three types of rural values are rather different. They can bring various advantages and possibilities for rural development. They all need protection in today's global competition. However, they require different kinds of treatment to be maintained, and can even be in conflict with each other. Natural habitats might be preserved through enforced, strict environmental regulations. Although, if production is thereby rendered too difficult or costly that could damage the local economy; cause out-migration thus ruining culture and community; and could even harm those natural

values which are the result of the symbiotic relationship between nature and human activities. If we 'build thick walls' around nice villages trying to 'close out globalisation', some cultural values (built environment, for example) might be saved. Nevertheless, those, wishing to improve their lives will desert the place and most values connected to people (other cultural and community values) will be lost. In prospect of harmonic (not distorted) development of a certain rural locality as many different values as possible should be considered, utilised and reinforced. On the other hand, if values lose their economic and social functions, they cannot be kept alive for long artificially. They will disappear or go to museums, just like old ways of production or most of Western Europe's peasant culture has. Only those values can be saved, which can find a new place or function in today's globalising world⁴⁷.

2.1.7. Towards a definition

The above review well demonstrates that, though we do not have an exact definition yet, the literature feeds a number of elements into the 'new paradigm'. The founding fathers of the endogenous development paradigm (Bassand et al. 1986) already established most important elements – such as the importance of endogenous resources, their marketing, the control of the process, external relations, local participation and leadership, subsidiarity, integration of economic sectors, etc. (Brugger 1986, pp.47) – subsequent theories concentrating on various aspects of rural development all offer valuable contributions. The 'endogenous paradigm', contradicting modernisation, put the main emphasis on the importance of participation, empowerment of local actors and unlocking of local resources. This was seen as the only way to protect rural values and enhance the rural economy at the same time. Nevertheless, when disregarding extra-local influences and possibilities (positive and/or negative), this approach may close whole areas into low trajectories

⁴⁷ An example: Old Transylvanian peasant culture (especially folk dances and music) from the late '70s, became the basis of a widespread urban subculture in Hungary. A large number of music- and dance-groups were established, and the so called 'dance-house movement' became an important part of urban culture. At the same time it reinforced cultural rural values and provided a market for many native musicians, dancers and other indigenous rural people, where they could 'sell' their knowledge, arts and crafts. Without the dance-house movement, for today, these cultural values could have been lost altogether. Instead, though in an adapted form, they are part of everyday life in Hungary, and are enjoyed by more people than they have ever been.

and misses the chance to explain important developments connected to global processes.

The theory of 'rural districts' is standing on a similar platform. However, it emphasises the importance of long standing socio-economic networks and a certain institutional thickness, trying to explain the economic success of these areas and clarify how they can penetrate global markets with their local products. Nevertheless, this approach can only be applied in a very limited scope, since these practices are difficult to transfer from one place to another and successful rural districts are still exceptions, rather than a rule for much of European rurality. The 'network paradigm', embracing previous exogenous and endogenous approaches, offers 'a third way', calling attention to the connections between local and extra-local networks. It explains rural development in the framework of innovation, learning and external intervention; and understands it as a set of power relations, 'who holds control', being the most important factor for local areas. However, as critics say, this approach is still too deeply rooted in the endogenous paradigm, and offers little help for the most backward rural areas, which, lacking resources and/or human capacity, have hardly any chance to develop sufficient networks or to be 'ahead of the game' in any way. Multifunctionality and the 'cultural economy approach' offer different routes for rural development, subsequently seeing the way forward in the role of renewed agricultural production and connected activities (small scale processing, the maintenance of environment, etc.) or in the marketing of socio-cultural traditions, through ethno/green tourism and locally specific production. Nevertheless, these alternatives should be understood as complementary, rather than mutually exclusive possibilities for rural development.

The formulation of the new rural development paradigm, therefore, benefits from existing practices and a range of theoretical considerations. The literature offers a number of definitions for rural development, concentrating on various aspects and considerations. However, there is a wide agreement amongst authors that the 'new rural development paradigm' is still a nascent concept informed by contemporary procedures and practices; therefore, we should not rush into exclusive, generalising definitions. Van der Ploeg et al (2000:396) believe that "the concept of rural development is above all a heuristic device. It represents a search for new futures and

reflects the drive of the rural population. It goes beyond modernization theory where the problems of agriculture and the countryside were considered resolved. Definitive answers, however, are missing and if offered should be mistrusted. Rural development theory is not about the world as it is, it is about the way agriculture and the countryside *might be* reconfigured.”

Nevertheless, I would like to offer here a working definition. It does not intend to be a final or an exclusive one, but tries to give a broad framework for this study and to indicate my approach to rural development, agriculture, EU policies and connected matters. The definition of what I call ‘integrated rural development’ is as follows:

Integrated rural development is an ongoing process involving outside intervention and local aspirations; aiming to attain the betterment of groups of people living in rural areas and to sustain and improve rural values; through the redistribution of central resources, reducing comparative disadvantages for competition and finding new ways to reinforce and utilise rural resources. It is integrated in the sense that - as opposed to central development - it is controlled and managed locally; but – opposed to local development – besides local resources it also leans on the professional and financial support of the centre. In other words, *integrated rural development* could be called the theory of the ‘new rural development paradigm’ which tries to identify how local development and/or the reconfiguration of rural resources can be helped by the centre; for the benefit of rural localities; at the same time maintaining rural values for the future.

‘*Integrated rural development systems*’, in this understanding, are particular setups of central and local institutions (such as: administration, knowledge, information and decision-making systems, social networks), working in coherence and so being able to realise the ideas of integrated rural development theory.

2.2. The central, the local and their integration

The following sections intend to clarify various elements of the above definition, such as: what I understand on centre and periphery, central and local development systems, how I differentiate between rural disadvantages and how they can be tackled through

different strategies. Then I outline simple models of non-integrated and integrated rural development systems suggesting that through the latter one integrated rural development might be achieved. Then I introduce an institution as a possible temporary solution to establish a better co-operation between various levels of rural development.

2.2.1. Centre and periphery

Rural development marginality is usually understood in geographical terms and is often synonymous with peripherality or remoteness. In this sense, it has long been recognized that people living in rural areas have suffered problems of physical exclusion from urban-based services and jobs (Lowe et. al. 1995). Nevertheless, for rural development '*centre*' and '*periphery*' can be seen in a number of dimensions. For this study, besides the geographic interpretation, I also consider economic and political understandings as follows:

The '*economic centre*' for this study consists of large European economic players, such as: particular Member States; large interest groups (the European Farmers' Union – COPA – for example); and the so-called 'eurogiants' – multinational business corporations (Amin and Tomaney 1993). All of these economic players have significant power and resources to influence the flow of goods, services and investments, acting as bastions of the European economy in conditions of increasing global competition. On the other hand, they can have enough political influence to effect changes in the ruling policy paradigm (see 1.1.). In contrast, local rural economies, with a high ratio of primary production and low value added, consisting mainly of very small firms, are often at the bottom end of vertical integration. These have negligible economic, financial and political weight and could be called the '*economic periphery*'⁴⁸.

The '*political centre*' for this study is the 'political building of the European Union'. This 'building' is not easy to capture, since the political power of the EU is spread

⁴⁸ Some rural economies of Europe, such as Emilia Romagna in Italy, are remarkable exceptions from this rule (Brusco 1982).

between different political, juridical and bureaucratic institutions (such as the European Council, the Parliament, the European Court of Justice and the Commission) and financial institutions (such as the European Investment Bank) of the EU. The EU as a political centre is said to be largely influenced by the most powerful Member States; by the 'euro giants' and large international organisations (WTO, NATO e.g.) (Amin, Thrift 1994, Korten 1996, Tucker 1999). Nevertheless, the EU is a political entity, having its own traditions, rules and procedures and bureaucratic power and a growing influence in many areas of economic, social and political life throughout Europe. The political centre designs and implements most of the policies and initiates changes (first and second order changes, *ibid.*) within the ruling paradigm, as part of normal policy evolution. In contrast, rural areas of the EU are usually sparsely populated, having neither a strong electoral basis, nor economic power. There is a smaller density of governmental and non-governmental institutions and there are generally fewer informed and influential people living in these areas. As a consequence it is difficult to get political representation or influence here, and these areas are most of the time on the 'receiving end' of the policy line. Therefore, rural areas are usually in the *'periphery of political life'*⁴⁹.

The *'geographical centre'* for this study is a highly urbanised geographical area, with a dense network of cities, industrial and service centres, extremely well developed infrastructure (of all sorts); rich human and institutional resources and networks. According to Eurostat 'peripherality index' (European Commission 2001/a) the central area of Europe consists of the Southeast of England, the North of France, the Benelux countries and West Germany. With a buffer zone around this area, everything else (such as Ireland, most of Scandinavia and Southern Europe and of course all the applicant countries) is on the geographical periphery. According to another approach, often cited as the 'developed banana' of Europe (Amin and Tomaney 1993) the North of Italy should be added to the developed areas. Undoubtedly, these regions are the most urbanised ones in Europe, while, the ones on the periphery, with a much looser

⁴⁹ However, counterurbanisation, rural renaissance and not in the least international networks of rural regions, developed or encouraged by EU policies have brought significant changes in this issue. Rural regions of Europe are becoming increasingly powerful.

network of smaller cities and generally lower level of infrastructure and resources, are the most rural ones.

The three aspects of *the centre*, described here, complement and reinforce each other in a number of different ways. Some of these are obvious, such as the highest degree of economic and political power (e.g. headquarters, political institutions). These are concentrated in central geographic locations, leading to far-reaching consequences for the development of these regions. Others are more obscure, such as the ways economic power is converted into political influence and vice versa⁵⁰.

2.2.2. The central and the local system of rural development

Europeanisation is about opening up political, economic, geographic and social space. This is being carried out through the reduction of a wide range of traditional protection mechanisms of these spaces. The process serves the interests of the *economic centre*, the market, international capital and multinational companies. Nationally or regionally specific rules and regulations currently represent obstacles for the free movement of people, goods and capital. Business needs to have *access* to local and regional economies. To achieve this, generally accepted regulations and policies, to ensure the necessary conditions (stability, proper relations, common technical standards, etc.), are needed. The European Union, the *political centre* of Europe, can be seen as a central organisation, which can design, negotiate and enforce these conditions. The continuously growing common regulations on markets, trade, safety, environment and different aspects of production, aim to provide for the access required by the *economic centre*. All these regulations are supposed to create similar circumstances for businesses and capital investment in all areas of the EU. In other words, Europeanisation essentially means growing accessibility to all areas, participating in the game. Like this, the playing field for competition becomes the same global economic space of production and consumption of goods and services for

⁵⁰ It is often difficult to capture, how economic corporations or powerful Member States do actually influence political decision making. To reach their aims, these actors do not only use their political representation. Most of their influence is reached through lobbying, holding back or distributing information or affecting public opinion through networks, financial or political power.

all areas. All this results in a growing 'global' competition, the rules of which are set by the '*centre*'.

Europeanisation, therefore, exposes peripheries to growing global competition. As a result of being on a different development trajectory, rural areas usually have a weak starting position and a low level of control during the process and thus have a comparative disadvantage. Consequently, they can easily lose much of their remaining resources that can jeopardise their future development possibilities⁵¹. At the same time this could also endanger the existence of those ecological, cultural and community values, which have been maintained in rural areas. This would entail a significant loss for the whole society and it is this which provides moral and democratic legitimisation for rural development. The resultant social, economic and environmental problems in rural areas can have a knock on effect on urban areas which provides additional political-economic legitimisation for rural development. Therefore, in parallel with the ongoing process of Europeanisation, intervention is needed to avoid or lessen its negative effects on peripheral regions. This intervention is usually called *rural development* by policy makers and it is done through: setting new rules for protection (replacing traditional domestic protection mechanisms); redistribution of resources through aid, agricultural subsidies and development policies; and providing assistance for local actors to unlock local resources.

On the other hand, *rural development* can also be seen as not an outside intervention, but the aspiration of local people living in rural areas for taking the challenge themselves and improving their life circumstances and their immediate environment. According to Van der Ploeg et. al. (2000:395) "rural development is reconstructing the eroded economic base of both the rural economy and the farm enterprise... (and) represents the well understood self-interest of increasing sections of European farming (rural) population." This aspiration is embodied in the work of individuals, private businesses, local institutions of public administration and political parties, and various forms of civil society. Local actors, seeking more influence and better results (and/or to fulfil the requirements of external aid for development), often form

⁵¹ Newcomers or external investors can buy up houses, land and other means of production, depriving locals from the utilisation of these assets in local development in the future.

development associations and partnerships. They try to achieve these aims through both unlocking local resources and attracting external ones (aid, public investment, direct private investment). This type of rural development is a 'heuristic device, which "represents a search for new futures and reflects the drive of the rural population" (2000:396).

Along these lines two types of complementary rural development systems could be distinguished, existing in parallel, though often being in conflict with each other. They carry significant and characteristic differences concerning their aims, actors, motivations, constraints, resources and overarching logic.

One type could be called the *central administrative system* of rural development, based on fundamentally top-down interventions of the political centre. It comprises such elements as: European and domestic policies; centrally redistributed resources; institutional networks; skills, technical and procedural knowledge of various level bureaucrats; strategic development plans; central rules and regulations; representation of high level interest groups and NGOs, etc. It has a formalised and *institutionalised* character. It is based on written rules, established procedures and controlled by bureaucratic institutions. It uses external resources for intervention, usually works with a very narrow flow of information, with high transaction costs and aims at quantifiable results. At the same time it can have a large scope and embrace higher level or long term strategic objectives, which are above short term economic rationality⁵². It is dependent on and driven by the modernist technological regime, and a central development logic⁵³ - in other words by the ruling policy paradigm. The central system contains various levels, including EU or domestic level, but depending on its size and the kind of intervention, the regional level can also belong to here. Vast

⁵² The central system can give preference to environmental protection before economic growth, for example. As a result, agri-environmental programmes or ecological regeneration plans can be designed, which are costly, but in the long run improve the environment and the livelihood of the people at the same time.

⁵³ A technological regime is a more or less coherent set of laws, procedures, agendas, artefacts, knowledge, organizational patterns, designs, etc. that together structure technological development (Van der Ploeg and Renting 2000). According to the modernist regime, development was seen in concentration of economic power, exploiting economies of scale, and creating formalised institutions in an attempt for centralising decisions and operations (Brunori and Rossi 2000). In agricultural production, for example, the main targets were cost reduction, intensification and specialisation, which

majority of EU and domestic rural policies belong to this system (for examples see Chapter 1.). Its overarching aim is to serve the interests of *the centre*, providing access to local economies and creating a reasonably balanced and 'peaceful' environment for economic development.

The other type could be called the *local heuristic system* of rural development, based on essentially endogenous, bottom-up processes. It comprises such elements as: local economic, political and social actors; local development plans; social networks and kinship relations; local authorities, innovative individuals, development associations and partnerships as well as the development skills and experiences of these local actors. Although it builds upon local resources, rural values and synergistic effects of multiple activities, it often needs external finance and encouragement (financial resources, technical assistance, mediation, expert knowledge, etc.). It is usually based on deep and responsive knowledge to local matters, very wide information flows, and an often loose network of public sector and civilian organisations of a certain locality. Institutionalisation and formalisation is usually low. This type of development tries to give flexible responses for internal and external challenges and possibilities in order to protect and improve local life and values, keeping benefits mainly for the locality. The resulting local development systems, in compliance with varied circumstances, can be very diverse or specific and difficult to transfer to other localities. The geographic level for this type of development varies according to local circumstances, though the sub-regional and other 'more local' levels below that seem to be the most appropriate. The overall logic of the local development system is rooted in the 'new rural development paradigm'⁵⁴ (see examples earlier in this chapter).

Concerning human actors of the two systems, additional important differences can be pointed out. Dynamic actors of local rural development systems, such as leaders of rural development associations, organisers of local co-operatives or private entrepreneurs, work for the betterment of their immediate environment. Their work

resulted in widespread monocultures on the European countryside. This process could be identified as one of the main components of what could be called the *central development logic*.

⁵⁴ Opposed to centralisation and specialisation tendencies in modernism, new rural development activities go back to historic traditions, re-moulding the social and the material, based on diversity and pluriactivity to an extent, when researchers talk about 'repeasantisation' of the European countryside

often has a very direct effect on the lives of themselves and their friends, neighbours, families. Therefore, due to their local embeddedness, they are under the moral control of their own community. Beside public money and aid, they usually risk their own savings and other resources as well. They usually have deep, insightful background knowledge and a continuous flow of information about their area, but often cannot deal with the bureaucratic rules of central policies. They are often very committed and have strong views on the future. This might mean less objectivity and can make them prone to mistakes during the development process⁵⁵, but it also keeps them going and preserves their faith in times of decline or problems. In certain respects, they have a short timescale on the one hand, since they have to produce results quickly, to convince others to join, and encourage the outside world to support their ideas. In other respects they operate to a very long timescale, since they stay where they are and 'have a whole life to spend there'. The main concern of their work is to attain the betterment of rural life and reach results often of a non-quantifiable nature.

Actors designing, administering and controlling central policies (politicians, bureaucrats, public servants) come from a very different perspective. They have to deal with other people's lives and ideas, which usually have no effect on their own. They are high up in the system, seeing a broader picture, similarities, differences, successes achieved and mistakes committed elsewhere. As a result, they can take a more objective perspective which considers long term or indirect objectives. They are far from the field, have very limited knowledge and information about certain localities and never have enough time or resources to process and understand even the data they have gathered. They are under administrative and political control, deciding about public money, having imperfect information and resources for this, and a failure may put their career at risk. At the same time they have power and control by themselves, hence one of their main concerns can be risk avoidance, shifting the responsibility on to somebody else (officials lower in the hierarchy or the beneficiaries) if possible. They have an insightful knowledge of the bureaucratic

and agricultural production (Van der Ploeg et al. 2000). This process could be understood as one of the basic elements of a *local development logic*.

⁵⁵ Such as: exclusion of those who they do not like or do not agree with; supporting and investing public and private resources into unrealistic ideas. These can cause legitimacy problems and can damage local economy and society.

structure, are used to strict rules and administrative procedures but also are the best placed to know how to 'interpret' them. They are often constrained by political commitments and other considerations, not recognised by outside observers. The main concern of their work is to fulfil the will of the political centre, achieving measurable results, designing and implementing policies in a transparent and accountable way, taking as few risks as possible.

Summing up it could be said that there are deep philosophical disparities between the two systems, or in other words they work according to significantly different development logics. One is rooted in the modernist tradition, the other in the new rural development paradigm, one works with a central, the other with a local development logic. As a result, the two systems (and their contributing actors) often cannot fully understand each other and it is hard to find good examples of long term, dynamic, balanced co-operation between them. Nevertheless, in reality any development process has to incorporate elements of both logics to have a chance to be successful. For example: central aims, such as the cohesion of different areas through structural development, are usually initiated by powerful central actors (e.g. the EU Commission), although the consideration of local interests and possible local effects, as well as the participation of local actors, is usually required for success. At the same time, a local development initiative, started by locals and aimed at their own environment usually needs some sort of technical or financial assistance (provided by the 'centre') to be able to take off, or at least needs broadly to comply with central regulations and strategies for the future.

2.2.3. Tackling rural disadvantages through different development systems

According to my initial definition of integrated rural development, the aims of rural development can be achieved through: *the reduction of comparative disadvantages for competition and the finding of new ways to reinforce and utilise rural resources.* Access- and resource- type disadvantages, (discussed above) are not independent. They are interconnected and often reinforce each other, multiplying negative effects in certain regions. Although they are difficult to separate, they should be tackled on different levels, through different approaches, institutions and procedures. The

following section will explore how different rural disadvantages can be faced through the two identified development systems.

Tackling access-type disadvantages

Traditional development policies, determined by 'the modernist technological regime', recognise *access-type disadvantages* as the main cause of backwardness, as well as social and economic problems. According to this approach, through improved *access*, structural backwardness can be mitigated and peripheral areas can be connected to the circulation of economic life. The market, supposedly, will do the 'rest of the job'. This is good for *the periphery* since it brings in external capital and other resources (information, expertise, etc.), thereby revitalising the local economy. It is also good for *the centre*, since it opens up new space, markets, natural and human resources and supports the continuous growth of the global economy. Such an approach can be based on the following principles:

- development can best be achieved through large financial investments and by building infrastructure, agencies and administration;
- it should be based on programming, have large scope in terms of time and geographical space, and consider higher or longer term objectives (such as environmental goals or the cohesion of different areas);
- resources should be concentrated; this presumably brings better results, and also means large projects, which can be administered, controlled and evaluated by the central institutions all the way - enabling transparency and accountability of public spending;
- development resources should be additional to private and (domestic) public money, helping projects that could not be realised otherwise (this, again, often means expensive, large projects, such as building of motorways);
- during the development process, policies should consider and be continuously informed by local interests, effects and reactions.

All this corresponds well with what was said about the *central administrative system* of rural development⁵⁶. The main target for this approach is the lack of physical access and infrastructure, understood as one of the most important causes of structural backwardness. The deep involvement of the central system in this seems to be rational, since it would be impossible to carry out large infrastructural developments (roads, communication lines, sewage systems, etc.) without central control, strategic planning and large external investments. This is also in line with modernisation and globalisation tendencies, economic growth and the usual bureaucratic and political requirements for spending large sums of public money. Nevertheless, if only some types of access are improved - namely the physical infrastructure, which is the easiest to plan, control, legitimise and carry out from a central perspective – it can lead to uneven development and the reinforcement of structural inequality.

Tackling other *access-type disadvantages*, however, is less straightforward for the central system. Creating soft infrastructure for economic access (financial and market support institutions, vertical and horizontal integrations, all sorts of services, training, etc.), for example, requires less money and engineering work, but more organisation, connections, local knowledge and social engineering in general. In a free market economy, local level institutions for market, education and services can be financially supported by the centre, but it is usually better that they be organised and maintained locally. Policy access is a similar case. Local authorities and various units of lower level public administration must be financially supported and often have strong political connections with the centre. Nevertheless, in democratic states they usually have a high level of local autonomy too. This is even more applicable to other local institutions, such as NGOs, civil societies, development associations and other local or regional partnerships. They also need financial support from the centre; however, their political, financial and organisational independence is crucial for freedom and democracy.

⁵⁶ This model is followed by traditional top-down development policies of the EU. Typical examples could be the Cohesion and the Structural Policies. To improve the three different types of access there are even different funds set up, such as the Cohesion Funds to improve physical access, the European Regional Development Fund (ERDF) and the Guidance section of the European Agricultural Guarantee and Guidance Fund (EAGGF) to improve economic and business access, and the European Social Fund (ESF), to improve social, policy access.

In other words, to successfully improve access to (and from) backward rural areas, local level institutions should be deeply embedded in local economy and society. They should be based on insightful knowledge of local circumstances and should give flexible, innovative responses to external and internal challenges, which assumes diversity, small scale and networking with a high level of independence. All this is difficult to achieve through conventional formalised institutions, top-down procedures and tight bureaucratic control of the central administrative development system. These types of institutions correspond better with bottom-up processes and the *local system of rural development*. Of course, it does not mean that central resources (money, expertise, coordination, strategic planning, etc.) are not needed, but rather that, some of them should be channelled through the local development system. This reduces transaction costs, targets resources more effectively to those places where they are the most needed. On the other hand, if these institutions are deeply embedded in local economy and society, they are more likely to improve access both ways, for the benefit of the locality as well⁵⁷. Additionally, besides creating policy access, local institutions are essential for unlocking local resources too, and therefore, their development also helps to tackle resource-type disadvantages.

Improving access does not necessarily favour the local economy and society nor helps to sustain rural values and improve life circumstances. If the local economy is not reinforced at the same time as the opening and if it cannot protect itself in the field of global competition, then improved access can take away as many or even more resources than it brings to the area (Douthwaite 1998). The results of asymmetric patterns of resource allocation and of diverse development trajectories cannot be eliminated simply by providing access and space for competition. This would be similar to setting up a race between a horse-drawn carriage and a modern racing car⁵⁸.

⁵⁷ An example could be a local institution created to support the marketing of regional products on external markets.

⁵⁸ Just two examples: The IMF (International Monetary Fund) has recently admitted that taking the North and the South as broad clusters, during the last three decades there has been a divergence of per capita income levels between the two groups of countries. The number of low-income countries in the lowest quintile has actually risen from 52 in 1965 to 102 in 1995 (Tucker 1999). And a European example: According to EU experts, after fifteen years of Structural and Cohesion Policies, the gap between the Southern Member States and the rest of the EU has been reduced. However, regional disparities, within the Southern States have grown, significantly (European Commission 2001/a). In practice, the central urban areas of the less developed states (which always have been better off) are developing rapidly, a consequence of structural aid, growing production and improved access to the

If local resources are inadequate or unprepared for the production of marketable goods and services, then the locality would not have anything to sell on the market and would lose out on the business. Improved transport and communication links can accelerate the loss of labour and local markets, squeezing out local businesses and reinforcing out-migration.

Tackling resource-type disadvantages

To be able to take an active part in 'the game', the ability of backward areas to produce marketable goods and services has to be improved. In other words, *resource-type disadvantages* have to be tackled as well. I argue that without advanced *local level systems* of rural development and a hospitable environment, created by the central system, resource-type disadvantages cannot be faced efficiently.

Improving the productive capacity of a certain region can be based on two basic strategies: relying on external resources, by attracting aid and direct private investment; or on internal resources, by unlocking them through local development. However, at the end of the day, every development is based on the utilisation or unlocking of some sorts of internal resources. Even large industrial foreign direct investment (FDI), as a classical example of exogenous development, chooses a particular location for new plants to utilise certain local possibilities. They can be attracted by geographical location, cheap and/or skilled labour, natural resources, cheap space or looser control and regulations, for example. They can also be induced by regional development policies, offering special taxation or financial assistance for those, investing in a certain geographic area. All these can be understood as internal resources, particular to an area. However, the way in which FDIs unlock them is very specific. It involves large financial investment, advanced knowledge, world-wide networks, and creates huge value added.

Nevertheless, there are certain characteristics of large external or induced investments, which often prove to be disadvantageous for the well-being of the localities involved (Cécora 1999). Large external investments in a relatively poor

global economy. At the same time backward rural regions do not benefit much from the development,

environment, changing everything overnight, can cause a shock to the local economy and society. What is called the “creaming” of regional resources by Stöhr (1986), they might use only a very limited part of the local resources (for example cheap labour, or space) creating over dependent, one-sided local economies. Whole regions can become dependent on one firm or industry, which carries the danger of total collapse in case of bankruptcy or relocation of investments⁵⁹. Alternatively, a firm can remain completely alien from its environment, offering little help to the local economy, but creating huge obstacles to any alternative forms of development⁶⁰. Competition for local resources and markets between external investors and local entrepreneurs is another important issue, limiting local development possibilities⁶¹. Decisions about large private (and public) investments are made far away, with small (or no relevance) to local interests, such as employment, income levels, accessibility of services and the protection of local (rural) values. If investments have to comply only with laws and central regulations (which mainly support central interests), there are no effective safeguards for the betterment of local people, or the protection of rural values.

However, if the local development system is well advanced, then a region or a certain locality is less exposed to the dangers, carried by large external investments. If a region has a well thought out, widely known and agreed development strategy, it is easier to decide if a certain investment is likely to bring benefits, or simply intends to exploit particular resources for profit - leaving environmental and social problems

but are going into even deeper decline and depopulation.

⁵⁹ If labour gets more expensive, environmental and welfare regulation stricter, or tax holidays end, firms, having no roots, local supply networks or need for skilled workforce, can (and often do) move forward to less developed areas. This is currently a strong trend in several Hungarian regions. For a comprehensive analysis of these and the following issues see Korten D. C. *When Corporations Rule the World* (1996) or Douthvaite, R. *Short Circuit* (1996).

⁶⁰ A chemical, or a waste disposal plant, built in a rural location, employing few, highly qualified workers, can be a major obstacle for the development of rural businesses in the field of tourism, or agricultural production, for example.

⁶¹ Retail business could be the most obvious example. Large department stores, built by international chains, often force small retailers out of business. Another, more unusual example: In a small rural area of the Great Hungarian Plain the National Park and the local development association together planned to start an environmentally friendly, extensive cattle business. An essential asset for this would have been the unused animal breeding plant of the old co-operative. The plan was supported by all important local actors, however, at the auction, a large agricultural investor, having better resources and political connections, managed to buy the plant. Today, instead of the environmentally- and community friendly local solution, there is an intensive goose-feeding plant on the site, threatening the environment and limiting tourism potential.

behind. If an area has advanced local development institutions and democratic procedures, it is easier to make legitimate decisions, and, should the occasion rise, to bargain and make a better deal with investors. It is also easier to find alternative possibilities (external and internal) for development or to stop an ongoing project, if necessary, to safeguard local values. External investment is neither good nor bad for rural development necessarily. If well prepared and controlled, it can be a boon to the local economy and society - providing jobs, supporting business networks, feeding into local infrastructural investment and improving the well-being of the whole community. The critical distinction for rural development and the 'betterment' of an area is: whether the bulk of the value is created/captured locally or externally; how sustainable is the unlocking and use of local resources; and who controls the whole process. To achieve a good position in this game, besides central rules, rural areas need extra, 'tailor made' protection, which might best be offered by their local-
heuristic development system.

Compared to FDI, local development initiatives unlock internal development capacity in a very different way. Having far less money and usually no advanced technical knowledge or international networks, they have to work with what they have: local knowledge, skills and traditions; primary production; natural environmental beauty and social networks. They have to unlock local resources – in other words have to reconfigure rural values as development resources – to be able to compete on the market. According to Stöhr (1986) endogenous initiatives aim at diversified multisectoral development standing on “more than one leg” (p. 70.). These rural development practices include a wide variety of new activities such as the production of high quality and region-specific products, farming economically, nature conservation and landscape management, agri-tourism and the development of short supply chains. They can be characterised by pluriactivity, multidimensionality, multifunctionality and a high degree of integration. Creating cohesion between farms and other rural businesses is also a crucial factor, and the simultaneous take up of different rural development activities may well provide some clues to how potential impacts can be enlarged by triggering synergy mechanisms. Rural development practices often require a difficult and complex reconfiguration of farm activities, new skills and knowledge or the creation of new networks (see 2.1.4. for details).

Local economic development initiatives can bring about very different benefits and have to face different problems than external investments. It is usually based on or aimed at a high degree of local-regional identity (Stöhr 1986). The scale of the development and of economic and social change is usually smaller, therefore it does not bring a shock to the locality. The change can be organic, built mostly on endogenous knowledge and resources, unlocking local development potential. Farms and other rural businesses, when diversifying their activities, can make gradual changes, based mainly on the reconfiguration of rural values and their existing resources (buildings, skills, land, etc.) and on their family labour, rather than significant financial investments. This type of development does not create economic dependency and cannot be disrupted by outside forces through cutting the flow of external resources or simply relocating the investment somewhere else. Nevertheless, as it is shown in the literature (see 2.1.1 and 2.1.2) there are many difficulties in reinforcing the economy through local development. As a result of economic and social degradation, resources are often simply inadequate or difficult and costly to unlock or utilise. Remoteness and lack of infrastructure restrict local development as much as external investment and the lack of local financial capital brings further difficulties. Nevertheless, the most difficult problems arise from the deficiencies of the local development system: poor human resources, the lack of legitimate institutions, weaknesses of trust and entrepreneurial culture. Without these and other necessary factors like co-operation and innovation, successful local development is impossible to realise.

New rural development activities, therefore, assume both a well working local development system and appropriate interventions of the centre. As one of the most important elements, an environment hospitable for local economic projects is much needed. This includes a variety of factors, such as: appropriate rules, regulations (market, hygienic, animal welfare, etc.) and accessible legal services, which can help (but also hinder) the production and marketing of locally specific products; supporting state agencies (technical, financial); long term development strategies; educational and training organisations. If appropriate information about local needs is available and respected, these factors clearly can be efficiently facilitated by – and hence can ultimately be part of - the central system of development. Nevertheless, other aspects of hospitable environment, such as advisory services; local business associations;

local development plans or marketing strategies are more efficiently provided by the local system.

Direct aid for economic development, investments or the creation and maintenance of jobs, for example, is also needed. Nevertheless, significant financial resources usually are only available from the central administrative system, which is not able to (and does not intend to) deal with the diversity of self driven local economic development projects. Traditional production subsidies under the CAP or domestic schemes could be mentioned as examples. After all, these can be considered as financial support for local economic development in the agricultural sector. These are traditionally significant subsidies, which are channelled through the institutions and procedures of the central development system. According to this, strict bureaucratic control has to be applied from the top all the way to the beneficiaries. Therefore, variations, different circumstances and local innovations cannot be taken into account. The money is distributed normatively according to simple, quantifiable indicators and eligibility criteria. The result is that: there was probably no policy in recent history of the EU criticised more for being ineffective, expensive, not reaching the targeted social groups and bringing possibly more socio-economic and environmental damage than benefits for rural Europe than the CAP (see Chapter 1 for details).

We would like to argue that: efficient redistribution of external aid and unlocking of local resources call equally for: a deep, insightful knowledge of local circumstances. Building networks, achieving synergistic effects and working out innovative solutions require trust and mutual understanding amongst the participants; and diversity, local variations, innovative solutions should be considered during the process. It is difficult to imagine achieving all this through formalised institutions and administrative procedures of the central development system. Advanced local systems of rural development seem to be much better suited for these purposes.

For balanced development of backward rural areas - ensuring parallel improvement of various access- and resource-type disadvantages - harmonic co-operation between central and local systems of development would be needed. If this is achieved that could be called an *integrated system of rural development*. Such a system might be able to solve the problem of 'how to support local development centrally', and realise ideas of integrated rural development theory. The following section offers simple

models to explore the connections between the integration of central and local development systems and the effectiveness of rural development policies, delivered by the system as a whole.

2.2.4. Integrated versus non-integrated rural development – two simple models

Integration in rural development can be discussed in various ways. Its most common understanding concerns the integration of various economic sectors - agriculture, industry, services. Another frequently mentioned aspect is the integration of those disadvantaged social groups in the development process (women, elderly people, national and ethnic minorities, etc.), which could suffer even more if left out of improvements. Nevertheless, now I concentrate only on the lack of integration of the two development systems: central and local. Building on the above discussed concepts, I intend to provide simple models of integrated and non-integrated rural development systems, which could give some explanation about the failure and success of rural development policies. The models at this stage can be understood as a vertical slice of the whole rural development system (including the *central system* and one (any) particular *local system*), thus it tries to explain the process from the perspective of a single rural locality.

Components of the model are derived from the previous analysis:

Central Administrative System of Rural Development – characterised by top-down, exogenous interventions, high level of institutionalisation, bureaucratic control, written rules and procedures, the modernist technological regime and quantifiable targets;

Central Development Resources – financial resources in the central development budget, available for redistribution through the central system;

Local Heuristic System of Rural Development – characterised by bottom-up processes, heuristic aspiration of local people to improve their lives, flexible responses to challenges, social networks, diversity, multifunctionality, and synergistic effects;

Local Development Resources – rural values (natural, cultural, social), understood as resources, which often have to be unlocked or reconfigured if they are to be used for local economic development;

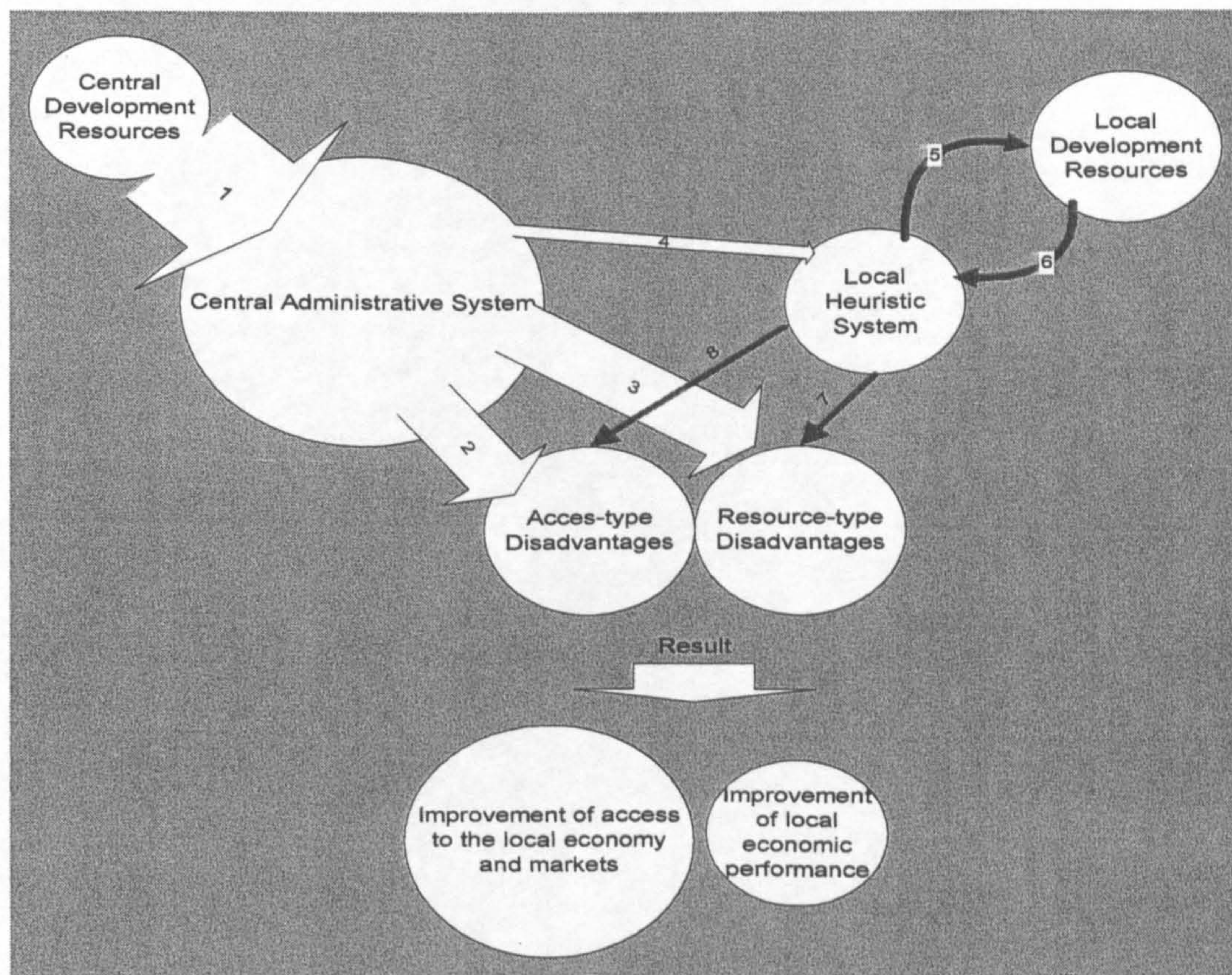
Access-type Disadvantages – limiting access (physical, economic, policy) and the free movement of goods, people and capital to and from backward areas;

Resource-type Disadvantages – (financial, human, institutional) limiting the ability of rural areas to produce goods and services saleable on the global market;

Result – the outcome of the development process: to a certain extent upgraded access and enhanced production capacity, resulting in either more balanced or biased environment for local economy and society.

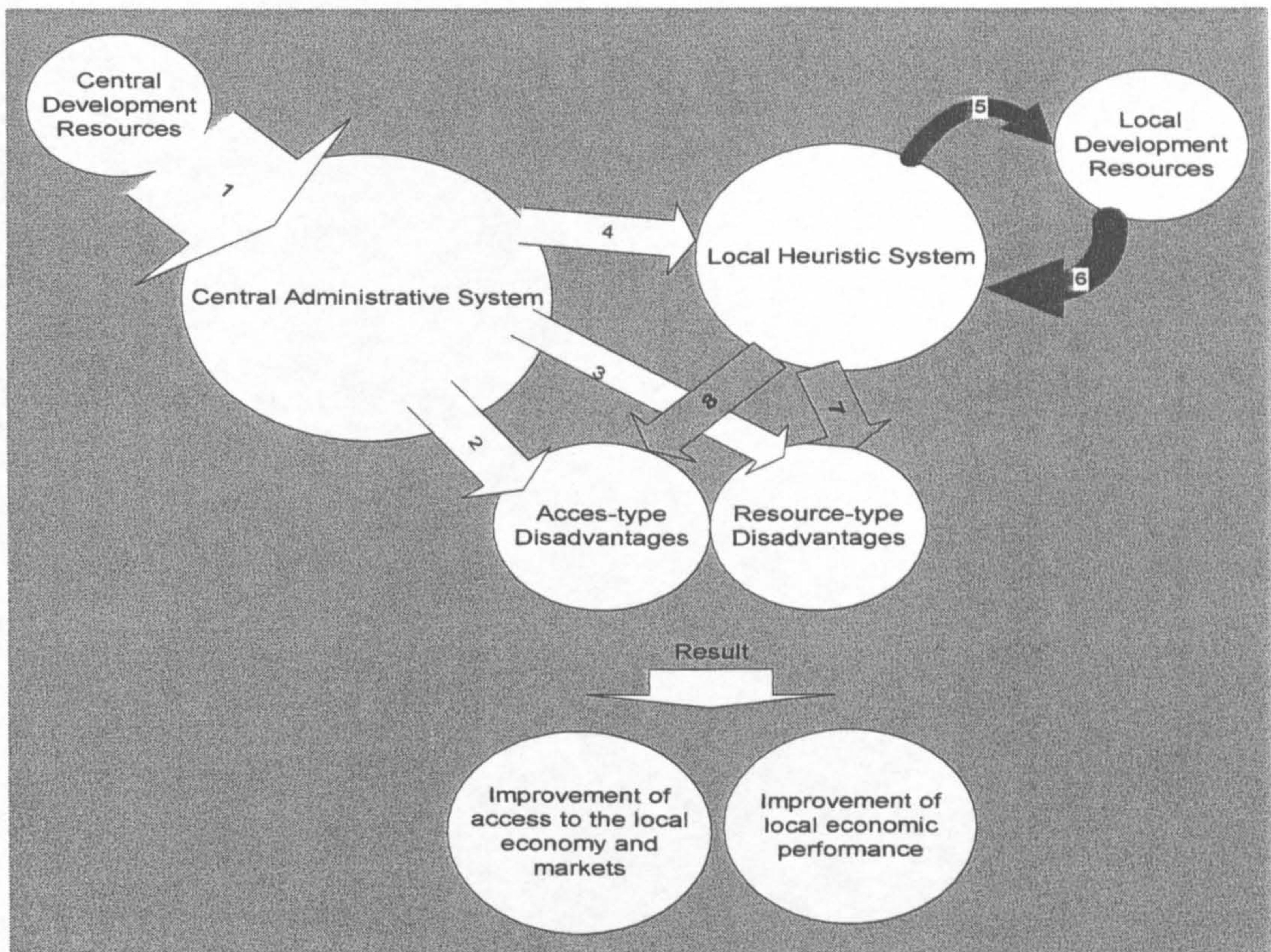
The direction and thickness of **arrows** (1-8) represent the flow of resources between different components of the model; and the size of the circles indicates the level of institutionalisation (and advancement) of the local and central development systems.

Figure 1. The non-integrated system of rural development



In a *non-integrated system* there is little or no co-operation between central and local systems of development. Control is kept in the centre and the local system is underdeveloped and barely institutionalised. The vast majority of *central resources* (1) are delivered by policies and institutions of the *central system* directly to the beneficiaries. Large amounts (2) are invested into tackling *access-type disadvantages* however; they aim largely the improvement of physical access. There are also large sums (3) for local economic development, however, mostly in the form of simple normative payments (production subsidies), which are ineffective and can carry significant dysfunctions. Very few resources (4) are assigned to the reinforcement of local development institutions or to unlock latent local development resources. The *local system* of rural development is weak, hardly institutionalised and does not have adequate resources to release local development potentials (5). Thus, much of these remain unexploited and the added value (6) of *local resources* (or rural values) remains small. The contribution of the local system to the elimination of *resource-type disadvantages* (7) is not likely to be significant. Non-physical access, backing the local economy and rural products to penetrate global markets can also expect little or no support (8). All these can lead to unbalanced development where, in a certain rural locality, access (especially physical access) improves much faster and further than production capacity. Here we end up in a vicious circle. If there is nothing to sell, then rural areas cannot withstand the competition brought by improved access, and finally most values that have been preserved by rurality are likely to be lost. In this case, rural development is not successful and central policies fail to fulfil their role.

Figure 2. The integrated system of rural development



In an *integrated system*, local and central development systems should work in a dynamic cooperation with each other. Control, resources and responsibilities should be dispersed throughout different levels of the system. The existence of advanced local development institutions is a necessary condition in this model. *Redistributed resources (1)* are still channelled through the *central system*, although their allocation is quite different. A significant share of resources *(2)* is still directly spent on tackling *access type* (mainly physical) disadvantages. However, those resources, allocated for supporting local economic development directly from central sources *(3)* represent a much smaller share of the budget. They are still normative payments, but rather aiming at the maintenance of public goods (agri-environmental schemes, for example) than simply subsidising conventional agricultural production. A significant part of central resources *(4)* is devoted to the reinforcement of the local development institutions and the unlocking of local resources. As a result, the *local development system* is well advanced and institutionalised. It is able to invest *(5)* in the protection of rural values and their utilisation in the development process. Like this, *local*

resources can be exploited and can contribute with considerable added value to the development process (6). This value flows into the economic resource base of the local area (7), creating marketable products and greatly reducing *resource-type disadvantages*. At the same time, the local development system can also make a significant contribution against *access-type disadvantages* (8), primarily improving business and policy access, for the benefit of the local area. All this can lead to a much more balanced development. The production capacity of the locality is reinforced and a two way access (from as well as into the locality) is provided. Thus the rural area, utilising its resources and finding its segment of the market can become independent, keep its population and sustain its values for the future.

Three main differences can be highlighted between integrated and non-integrated models. One concerns the *flow of resources*, the second the *flow of information*, and thirdly the *level of advancement and/or institutionalisation* of local development systems.

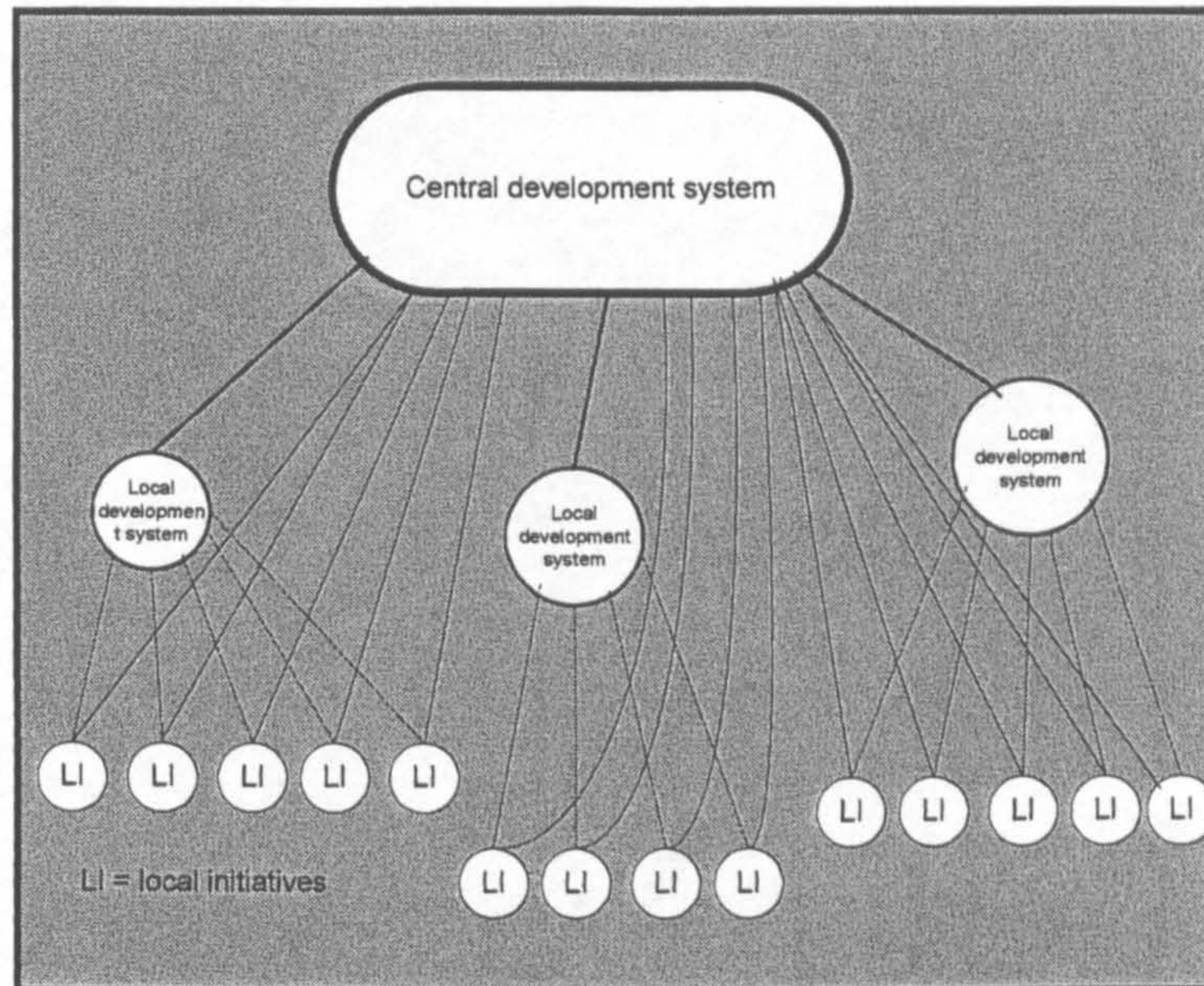
The difference concerning *resource-flows* is quite obvious. In the non-integrated model the central system distributes the vast majority of the budget directly through its administrative institutions, applying strict bureaucratic control and simple indicators all the way down to the beneficiaries. The inevitable result is low effectiveness, since much of the money cannot reach those places where it is most needed. At the same time, lacking central financial resources and technical/political support, local systems are not reinforced and there is often insufficient capability to unlock local development resources, or even to absorb central aid. Consequently, the value added of the local system to the development process remains small.

In an integrated model, a significant part of the budget is not delivered directly by central policies, but channelled through the local development system. This strengthens this system and allows for the reinforcement of local institutions and social networks, etc. It can also directly provide financial aid for the exploration and exploitation of local resources for local economic development. All this can result in the rapid growth of local added value and the expansion of available development resources, for the development system as a whole.

By including the *flow of information* in the model, the differences of effectiveness between integrated and non-integrated development can be partly explained. Accurate and detailed information about problems and possibilities, disadvantages and resources is the key starting point for any action in rural development. To explore the differences in information flows between integrated and non-integrated development, additional figures are needed, showing not only one slice (representing the viewpoint of one locality), but the system as a whole. In the non-integrated model (see Figure 3.), the central system, through institutions and bureaucratic procedures tries to supervise the whole development process. For making appropriate strategic and operational decisions about development, information has to be collected, processed and analysed centrally. For tackling resource-type or some non-physical-access-type disadvantages, masses of very diverse information should be handled from a large number of rural localities. Information would be needed not only about access- and resource-type disadvantages, but also on many other aspects, such as conditions of social networks, local development institutions, condition of the local value bases, and so on. Moreover, taking this logic further, different level institutions of the central system should monitor and control each of the development projects⁶² as well. This would involve huge diversity, large number of decisions and huge transaction costs, creating enormous difficulties for normal bureaucratic institutions. Possible (usual) solutions are: fighting mainly those disadvantages, which are easier to grasp without detailed information of a qualitative nature (problems of physical access, for example); supporting large projects instead of small ones; or to give normative payments based on simple quantitative indicators and political decisions, rather than detailed, quality information. Nevertheless, all these result in low effectiveness, significant gaps in the development process and the exclusion of certain activities, social groups and geographic areas from central aid.

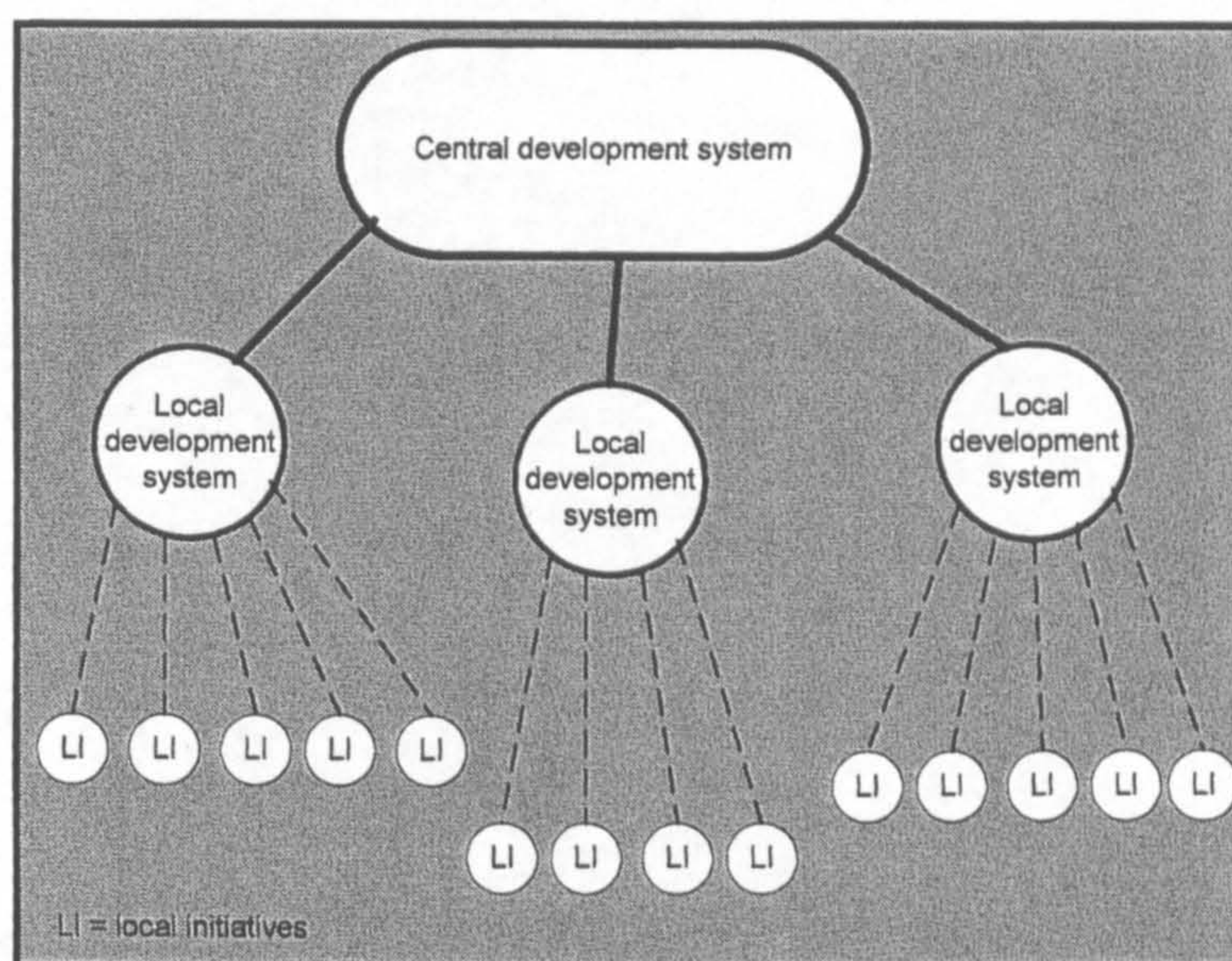
⁶² Looking at EU pre-accession policies, the PHARE Programme works this way most of the time, giving the right (and the burden) of controlling each project to the Brussels institutions. The SAPARD Programme has a similar system, though in this case the main controlling/commanding body was established in the Candidate Countries, according to strict rules, determined by the Commission in Brussels (for a detailed account see Chapter 4 and 5).

Figure 3. Information flows in the non-integrated development system



In an integrated model (see Figure 4.), information is still needed, however, it is collected, processed and used on a much lower level, in the relevant local development system. Every single local system, belonging to a certain region or rural locality (institutions, social networks, businesses, etc.) deals only with information of its own area. In this way transaction costs can be kept lower, background information, innovative local solutions, tacit knowledge and social networks can be utilised and latent resources are easier to unlock. Limited central control can still be applied through regulations and the allocation of central resources. However, this allocation can be based on diverse, qualitative information, already processed by local development institutions. Strategic and operative decisions can be negotiated with local representatives, for example through integrated local development plans. By utilising diverse, high quality local information in a dynamic, iterative way, local development initiatives can create significant added value and generate synergistic effects, thereby making the use of central resources much more effective in the development process.

Figure 4. Information flows in the integrated development system



Several obstacles, hindering the dynamic integration of central and local systems of rural development can be identified in the above model. A more philosophical reason - arising from the differences in their basic logics, and causing frequent misunderstandings between them - was explored above (see 2.2.3.). Another, rather practical reason originates from the absence or immaturity of local development systems. If there are neither established decision making procedures, legitimate leaders and representatives nor carefully planned local development strategies in the localities; if local development associations, public-private partnerships, advisory services, paid development managers and agencies, and other local institutions are lacking; if social networks are undeveloped; there is no culture of entrepreneurship and innovation and human resources are insufficient in general - that seriously limits the possibility of both local development and central policies. Legitimate and formalised institutions play a key role here⁶³. Paying local people to work for the common good can concentrate and accumulate human resources on local rural development tasks. These people then can accurately collect and process information, making it available for both central and local use. They are also crucial for accessing central development resources. The central system, which is based on bureaucratic institutions and procedures, needs 'something comparable' to communicate with.

⁶³ In the literature this is often referred to as a certain 'institutional thickness' (Amin and Thrift 1994).

Without formalised institutions and representative bodies the local/sub regional level can neither negotiate with the central system nor access aid from the 'rural development budget'. Institutions are also necessary for accountable and transparent spending of financial aid. Consequently one could say that, an integrated system can only work if the local development system reached a certain level of *institutionalisation*, which is the third important difference between the two models described above.

A fundamental difficulty for integrated rural development can be identified here. The most appropriate levels for local rural development – sub-regional and below – often have few historic roots and weak public, civil and business institutions. Especially in the most backward areas, these have to be newly created or largely developed to be able to fulfil central requirements. For the centre, it is not easy to find ways to support this process, for several reasons. First of all, central aid, according to the rules, is tied to accountability and complicated bureaucratic procedures. This often proves an impossible condition for newly emerging rural development networks. On the other hand, for organic development, aiming at structural changes, local institutions should progress through bottom-up, participative processes, which cannot be driven or closely controlled from outside. Once the local development system has fully operational, advanced institutions, they can translate and mediate; they can help to access central resources for local economic development; explore and defend local interests; or can offer both, information and a channel for the central system to provide technical and financial aid. Nevertheless, local development systems with their institutions can already be considered as 'process type results' of previous rural development themselves. Therefore, it is very difficult to find an entry point in this cycle and to initiate the process. Surely, it should be a gradual process, involving many compromises and a combination of local and central efforts. Nevertheless, I would like to argue that reflexive intermediary agents, translating and mediating between central and local systems, could be of a great help in this process.

2.2.5. The reflexive agency

Ray (1999 and 2001), introduces the concept of the 'reflexive practitioner'. He builds on previous works of Lipsky (1980), Lumb (1990), Wright (1992), Lowe et. al.

(1997), and Mc Nicholas (2000) and on research evidence from the LEADER I and II in Britain and France. He argues that the approach and working style of project workers, employed by LEADER LAGs (local action groups) significantly contributed to the success of the programme. LEADER was an experimental programme, a 'rural laboratory' with a flexible design, embracing diversity and local initiatives. Even though, certain 'translation' of central procedures was needed, especially at the local level, where "objectives of central intervention could sometimes be regarded as alien or disruptive" (Ray 2001:61). Development workers, acting as reflexive practitioners, helped to "square the idealism of local participation with institutional orthodoxy" (ib.:65). According to Ray, they are intermediary mediators between local individuals (businesses), the EU 'officialdom' and local, regional players. They are active agents who reflect on local circumstances, represent and spread values of EU rhetoric on endogenous development and democracy; prefer local participation and process type aims to measurable ones; and are more concerned about the targeted people than about the policy. They helped "the locality and its people to engage more equally with extra-local factors, anything from sources of development funds that the local area might need to pursue a development project up to the broader environment of ideas and socio-economic factors" (ib.:71). The category of the 'reflexive practitioner' can be seen as the critique of 'technical expert'. The latter is devoted to fulfil bureaucratic requirements of the central system, the former continuously questions his authority to intervene. These practitioners subscribe to a humanistic and pluralistic worldview and their belief-led activity often creates tensions with the bureaucracies that are responsible to society for the design of interventions and the commitment of public funds.

Reflexive practitioners therefore, according to Ray - filling the gap between certain individuals and the officialdom - have often been able to make endogenous rural development a success under the LEADER programme. Nevertheless, there are some important preconditions to this. First of all, LEADER was an exceptionally flexible programme, with comparably hospitable central procedural settings and low

bureaucratic requirements for local development activities⁶⁴. The programme was considered to be a small-scale experiment, institutions and the whole political environment was quite supportive, and information was relatively easy to collect and distribute. The existence of a partnership and a local development programme was a precondition for applying for resources, therefore local development institutions (and the *local development system*) already had to reach a certain level of advancement to be able to participate. LEADER introduced many innovations, but it was still part of EU rural policies and was implemented in rural regions, which had had a long education in this field. For all these reasons, in the special case of LEADER, it was easier to reach a reasonable level of integration of local and central development systems. One could argue that, this could have been part of the reason for its success.

However, if integrated rural development is to become a core policy, spreading to the most disadvantageous areas (including Eastern Member States), then capacities of reflexive practitioners alone might become insufficient for mediating between central and local systems. Nobody can realistically expect core policies to be as flexible, experimental and 'integration friendly' as was the LEADER programme. At the same time, backward rural regions, with little or no experience of EU bureaucracy, might not have appropriate formal institutions and administrative capacity to deal with standard procedures of policies. I argue that, *'reflexive agencies'* - similar to the concept of reflexive practitioners, but acting on higher level - could prove to be particularly useful in creating a hospitable environment for integration. I would only like to introduce this concept here, and will elaborate more on it later, in connection with my regional case study in Chapter 5.

⁶⁴ According to an interview with an official in DG Agri, in the early years of LEADER, practically every LEADER action group was controlled by a few enlightened bureaucrats directly from Brussels, who had a permissive, experimental approach to the programme.

CHAPTER 3.

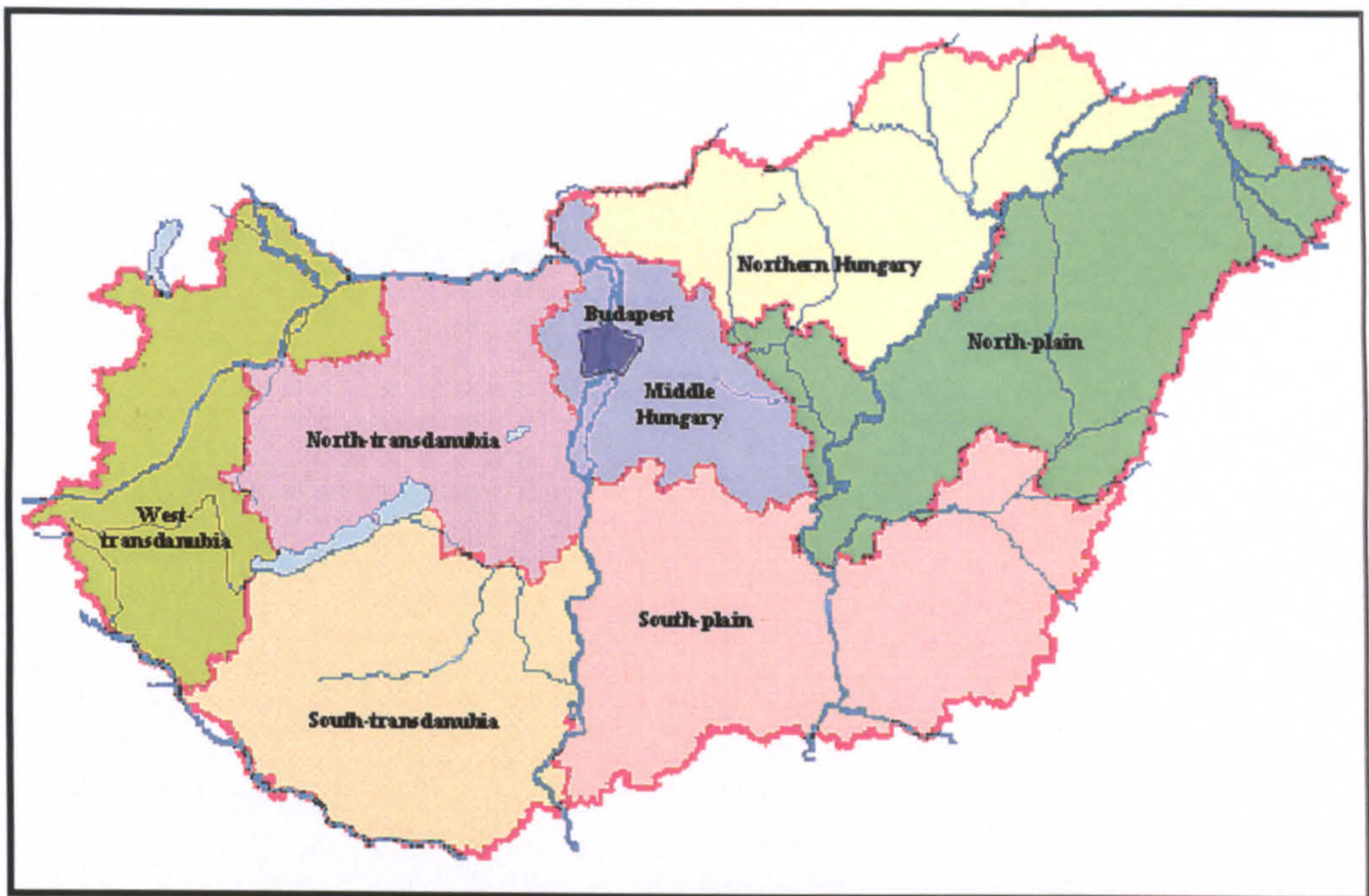
CHANGE AND CONTINUITY

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PROBLEMS, POLICIES AND DEVELOPMENT APPROACHES IN RURAL HUNGARY

This chapter intends to set the scene for my two Hungarian case studies in Chapter 4. and 5. I try to give an overall background to Hungarian rurality, exploring historical and current economic trends, political and social context, supporting factors and barriers for integrated rural development. First, together with basic statistical information, some details about Hungarian history, necessary to understand current trends, will be given. The second large section is on agriculture. After exploring the agricultural structure during socialist times the crisis of the 1990s and the resulting changes of the land use system are investigated. Then I analyse traditional productivist agriculture as a resource for rural development. The third section is on the changes of Hungarian rural society and economy (apart from agriculture). First the main regional differences and various waves of rural industrialisation consequences are portrayed. Then I continue with reviewing earlier state policies, and the most important concluding changes in the economic and social structure of Hungarian rurality, including migration tendencies and characteristic regional development problems. The fourth section explores socio-political processes and institutional developments of the last decade, important for current and future rural development possibilities in particular. First policies and available resources aimed at the development of backward rural areas in Hungary are to be explored. Then I review those institutions and interest groups (governmental, public, civil and economic) which are involved in rural development. The fifth section explores rural values in Hungary (ecological, socio-cultural, community) and the possibility of their reconfiguration as resources for integrated rural development. Finally, two alternative scenarios in connection with the possible future of Hungarian rurality are outlined.

Figure 5. The Map of Hungarian Regions



3.1.1. Geography and statistics⁶⁵

Hungary is a relatively rural country, covering 93 000 km². The territory is divided into 19 counties, which are equivalent to the NUTS III level of EU areas. Recently, under the National Regional Development Plan, 7 large (NUTS II level) regions were designated. There are also 150 statistical sub-regions (NUTS IV level approximately). Based on the definition of the OECD 'Rural Indicators Scheme' (Commission, 1997/2), no Hungarian sub-region outside the agglomeration surrounding Budapest can be considered as urban. Some 62% of the country can be classified as 'predominantly rural' and another 35% as 'typically rural' area. Another remarkable fact is that in more than 50 sub-regions there is no settlement that could be considered as urban, according to the definition in use. The settlement system consists of 218 cities and towns and 2913 villages⁶⁶. Hungary has 10.2 million inhabitants, 19 %

⁶⁵ Figures in this part are quoted from the Hungarian SAPARD Plan, where not otherwise stated (MARD 1999).

⁶⁶ The division between towns and villages in Hungary is controlled by a central regulation. There are a number of criteria which a settlement has to fulfil to become a town. It has to have certain communal infrastructure, certain institutions of education, culture, health-care and social welfare, for example.

living in the capital (Budapest), 45 % in other cities and towns and the remaining 36 % in villages. Rural areas altogether stand for 73.6% of the whole population that is almost twice as much as the EU average (<http://www.fvm.hu/english/english.html>).

The Hungarian population is an ageing one. Over the last 20 years the number of inhabitants has been decreasing. The largest ethnic minority is the Gypsy population, representing 5% of the total and on an upward trajectory.

The GDP per capita in 2000 was 52% of the EU15 average, and growing at 5.2 % per annum. Hungarian agriculture in 2000 accounted for 3.9 % of GDP (EU-15 average was 2.0 %) ⁶⁷. Hungary is one of the few CEECs with a positive agricultural trade balance. Apart from a positive trade with the EU, the country has a high proportion of agricultural trade with other CEECs, the former Soviet Union and the rest of the world. Employment in agriculture has declined considerably over recent years. Some 227,000 people work in agriculture, fishery and forestry, corresponding to 6 % of total civilian employment ⁶⁸ (Regular Report on H., 2002, and <http://portal.ksh.hu/pls/ksh/docs/hun/xftp/gyor/fog/fog20407.pdf> on the web page of the Hungarian Statistical Office).

3.1.2. Historical background

Although the subject of this study is the present situation and future prospects of the Hungarian countryside, Central European history has had a great influence on today's events. To understand the main political, economic and social trends in contemporary Hungary, it is necessary to know a little about the past. The following is an outline of some of those historical trends and periods, which have had an obvious effect on contemporary Hungarian rurality:

There is always a current list of towns in existence (11 new towns were added to it in 1997, for example). All those settlements which are not on this list are considered as villages in official terms.

⁶⁷ This represents a great reduction over the last decade. Agricultural GDP was 12.5% in 1990, and 4.9% in 1999.

⁶⁸ For a comparison the 12 applicant countries (CC-12) average is 22 % and in EU-15 it is 4.3 %. Hungarian agricultural employees amount to 2.5 % of the CC-12 agricultural labour force and the country would contribute to 1.4 % of the agricultural employment in the EU-27 (Regular Report on H., 2002, and <http://portal.ksh.hu/pls/ksh/docs/hun/xftp/gyor/fog/fog20407.pdf> on the web page of the Hungarian Statistical Office).

- There have been major differences between Central and Western Europe in the historical development of their economies, cultures, nationhood and national identities. Central Europe has always been 'stacked' between the two great, organically developing and continuously conflicting cultures: the feudal and later bourgeois civilisation of the West, and the consecutive centralised empires of the East (Szűcs, 1985). This 'buffer-zone situation' resulted in continuous wars and the introduction of certain elements of foreign systems. Conditions never stabilised sufficiently for the development of a high-density system of cities, trade-routes or the 'proper' institutions of nation states. Compared to Western Europe *this region is not simply backward, it is different.*
- At the end of the 17th century, Hungary became an internal colony, and simultaneously the granary, of the Hapsburg Monarchy. The price of prosperity in agriculture was a break in the development of a modern economy and society. In 1867, after several uprisings and a war for independence, the declining Hapsburg Empire had to reconcile itself with the Hungarian nobility. The Treaty of the Compromise was signed, giving birth to the short-lived Austro-Hungarian Empire. The next 45 years was one of the greatest periods of economic progress for the country, a late but dynamic Industrial Revolution.
- This growth, however, ended with the defeat of the Hapsburg Monarchy in the First World War. The Empire collapsed, and in 1920 at Trianon, when the new borders of Hungary were laid down, the territory of the country was cut down to a third of its previous size, and its population shrank by 60%. Most of the large cities, industry, mineral resources, and an outer ring of transport and communication were lost. Losing their economic and cultural centres, many previously flourishing or, at least, viable rural areas became extremely peripheral. Regional, social and political tensions within Hungary, and internationally, were created and preserved for the future.
- After World War II, on the defeated side again, the country was almost completely destroyed. The Communists, backed by the Red Army, took over power. Dictatorship, at least economically, was initially very efficient. Within a decade a viable economy with heavy industry, infrastructure and at least a partly modernised agriculture was built on the ruins. However, the Soviet economic and political

system, like Austrian absolutism or German Fascism, could not fully succeed in Hungary. The attempted revolution of 1956 was followed by years of terror, but from the mid 1960s economic and political reforms took place. Elements of a democratic society and market economy gradually infiltrated the system of state socialism. However, the redistributive planned economy did not change fundamentally. Although, large loans raised by the government postponed a crisis during the 1970s, the economy together with the political system and the whole socialist world collapsed in the late 1980s. Changes in Hungary occurred without any violence. The Russian army left and, for the first time since the Ottoman invasion, Hungary was free of foreign soldiers, but not for long. Three years later IFOR troops arrived in the country to resolve the Southern Slavic conflict.

- In the 1990s, Hungary tried to transform its entire political and economic system albeit in the absence of the necessary financial resources. This social political and economic transformation is commonly referred as *The Changes*. Former international socialist markets collapsed; there were wars and bloody uprisings in neighbouring countries, and a continuous fear of 'old Big Brother'. Promised and expected substantial financial help from the West did not arrive. In addition the fresh Right-wing Hungarian government was far from professional. The country fell into a deep social and economic crisis. Within three years unemployment rose from 0% to 12%, inflation to over 30%, GDP fell by 18% and the gross national debt went up to 70% of the GDP. The recession in agriculture was even more pronounced than in other sectors; production fell by 34%, cattle and pig livestock numbers fell by 50%, almost to the level of the immediate post-war period. In 1994 the decline stopped, a new restrictive economic policy was introduced by the new socialist government, and during the next few years the economy started a slow recovery. However the price of this improvement was further cuts in public spending and a fall in the standard of living.

3.2. Agriculture: socialist modernisation and post-socialist transition

3.2.1. The socialist past

Collectivisation and the creation of state farms⁶⁹ in Hungary, similarly to other socialist countries, meant the forcible confiscation of land and other agricultural means of production from the peasantry, leaving only garden-sized⁷⁰ fields in private hands. The socialist state had political as well as economic goals for this process. During the first wave of collectivisation between 1950 and 1954, the main goal was to create conditions for economic and political control of the rural population, in other words to compel the peasantry into the 'modern socialist society'. For this, rural people had to be deprived of their independence and self-sufficiency. LEADERS of the new co-operatives were appointed or, at least, approved by the Communist Party. Sometimes they were former factory workers who knew nothing about agriculture. Goals and methods of production were decided centrally, frequently without consideration of local circumstances, even weather conditions⁷¹. Another important goal of collectivisation was to generate a sufficient workforce for the heavy industry then under construction, through accelerating the outflow of manpower from agriculture. The policy succeeded: during the first few years 110 thousand private farms were abolished. Many former peasants did not want to work in the state-run co-operatives, and after their land was taken away, they were forced to become industrial workers.

The second wave of collectivisation (from 1959 to 1962) was slightly different - it was based on economic force and propaganda, rather than on open violence - and was more successful than the first one. The vast majority of land and other means of

⁶⁹ The land of the state farms, comprising approximately 20% of the whole agricultural area, was never owned by peasants. These huge farms originated from the nationalisation of some large estates.

⁷⁰ The average size of household plots was 0.25 ha, although there were areas with bigger properties as well. Later it was possible to rent fields from the co-operatives.

⁷¹ During the 1950s there were central directives for the production of tropical and Mediterranean products, for example, cotton and oranges, which is not possible in the temperate climate of Hungary. The 'Hungarian Orange' later became the symbol of the stupidity and narrow-mindedness of political leadership of those days. Much greater damage was caused by central political control of sowing and harvesting times or livestock numbers.

agricultural production became collectivised, and the number of individual farmers reduced to less than fifteen percent of the previous. During the early '60s, almost half a million people left the agricultural industry (Csire 2003). At the same time, co-operatives and state farms started to modernise their production; economic goals, besides political ones, became significant. Large scale industrialisation of Hungarian agriculture took place. The results of this process, concerning agricultural modernisation, could be seen as very similar to those, achieved by the first wave of EU agricultural policies (for details see 1.2.1.). Young, educated agronomists took over the leadership of most co-operatives and state farms; major investment in mechanisation occurred; the use of chemicals and the more advanced methods of production were introduced. From the early 1970s, many previously independent co-operatives were merged, and very large farming units of up to tens of thousands of hectares were created; resulting in further reductions of the agricultural workforce. As part of the new economic policy of the socialist government, these co-operatives became more autonomous and were more run for economic profit than previously. This was interlinked with the increasing development of processing industries in rural areas. By the early 1980s all these resulted in a two-to-three fold increase in yields, thereby approaching or actually reaching the standards of the most highly developed countries. This was an unparalleled development in the CEE countries (Varga, 1998), often referred to as the 'Hungarian agricultural miracle'. The agricultural boom lasted until the mid-eighties, when a combination of economic factors resulted in a chronic stagnation of production and then the slow decline of the agricultural system as a whole.

Modernisation resulted in a further decline in demand for agricultural labour, but co-operatives had a responsibility for local employment. From the mid 1970s, many of them started to run various industrial businesses and enterprises, the so-called "industrial sidelines", to create employment, use spare capacity, and to lessen the chronic liquidity problems that beset Hungarian agriculture from the mid-eighties onwards⁷². This economic activity was mainly in processing or light industry, usually

⁷² This process - though on different economic basis - was comparable in its results and timing to the arising of the 'rural branch plant economy' in western European countries (see details in 1.2.2. and 1.2.3.).

in the form of companies affiliated to large factories in industrial centres. Although the technical equipment and production methods used were usually outdated, cheap labour and very favourable central regulations allowed these small plants to flourish, and consequently industry was introduced to many rural areas.

A new system of production contracts with employees of the co-operatives and other villagers was also introduced. This had far reaching influences on income trends and general living conditions in many rural areas. The terms of the contracts were that the co-operative should provide young livestock with health care and most of their feed or, in the case of cultivation, all the basic materials and mechanical work. People gave only their labour and the space around their house. They needed very little capital and took hardly any risk. The co-operative bought the final production and discounted all the expenses from the price. This type of co-operation was widespread in pork and beef production and in the cultivation of fruits and vegetables, which required a high level of manual work. Another new policy was also introduced in the 1970s allowing small, complementary family enterprises in agriculture. The effect of this was felt first of all in the areas which were near to major markets; for example around Budapest. A number of flourishing small enterprises were established in these years, mainly producing early fruit and vegetables. In the context of such changes in agriculture, a so-called "second" or "shadow economy" emerged.

By 1989, 'private agriculture' consisted of 1.4 million household plots averaging only 0.25 ha of land. These tiny farms were very productive, producing 35% of all agricultural production on less than 6% of agricultural land⁷³. Most rural households had an additional income from agriculture and many could earn much more from these household plots than from their official jobs. There were different levels of participation in the shadow economy (Nemes and Heilig 1996), ranging from producing only for self-support to flourishing family enterprises that brought in considerable income. Small-scale agricultural production was therefore one of the two legs of the local economy in rural areas. This system of small agricultural enterprises - having certain elements of the capitalist market economy but existing within state-

⁷³ This high proportion comes primarily from livestock numbers. 17.8% of all cattle and 45% of pigs were kept privately, while the share in cereal production was only 10% (EU Commission, 1995).

socialism - was an important factor in the liberalisation of Hungary's economy and society⁷⁴.

As a result of all of these factors, in 1990, agriculture, compared to other sectors, seemed to be at a fairly good starting point for privatisation and transformation into a market economy. It had the largest proportion of non-state ownership, the widest opportunities for private enterprises. What is more, during the late 1980s, it experienced a reform of legislation aimed at the liberalisation of land ownership as well as the work of co-operatives (Varga 1998).

3.2.3. The crisis of the 1990s

The Hungarian agri-food sector underwent important reforms and suffered a major crisis during the last decade, leading to a further significant reduction of the importance of agriculture in the country's economy. Although the start of the decline dates from the 1980s, in the 1990 it became precipitous within a radically transformed context with simultaneous changes in the structures of land ownership, market institutions, rules and regulations and agricultural policy instruments. The consequences were dramatic. The 28% fall of Hungarian agricultural production between 1990-1999 was only second in magnitude to Bulgaria amongst CEE countries. The largest decrease was in animal-husbandry, the number of cattle and pigs was halved, in other words, it dropped back to the immediate post war level. The transformation also shocked the economic performance of farming organisations. The share of agri-food business within GDP went down from 12,4% in 1991 to 7% in 1999, representing a 44% decline.

⁷⁴ At the same time, this virtually uninterrupted tradition of small scale agricultural production helped to maintain socio-cultural values and family networks, preserving certain elements of a traditional 'peasant way of life' up till now in Hungarian rurality (see 3.3.4.).

There are various reasons for these dramatic changes, such as the abolition of the meat consumption subsidies, a drop in real living standards, the collapse of the traditional Russian markets, droughts in 1993 and 1995, a lack of capital and the breaking of the symbiotic linkages between large-scale farms and small plots (NZ Institute of Economic Research 2001). Nevertheless, the most significant transformations within Hungarian agriculture are the large scale privatisation of land and the connected reform of agricultural co-operatives and state-farms, resulting in deep structural changes.

3.2.4. The reforms of agricultural co-operatives, and the changes in land ownership and the land use system

The transformation of the old co-operatives was generated by Law in 1992, which made it obligatory to divide up common co-operative property - everything except the land. The years of uncertainty about land ownership; the abolition of state agribusiness structures; the political attacks on agrarian intelligentsia together with other limiting factors (see above) led to the collapse of the co-operative system. Nearly 30% of agricultural co-operatives ended up in, or close to, bankruptcy. Today, co-operatives cover approximately half of their previous area and employ a quarter of their previous workforce (Varga, 1998). All these, besides significantly raising rural unemployment, resulted in the collapse of the flourishing system of integrated household plots, which used to work in more or less every aspect through its connections with the co-operatives.

Table 3. Private and corporate agricultural holdings in Hungary (2000)

	Number of Holdings	%	1000 ha	%	Average size in ha
Total	96,916	100	6,448	100	6.7
Private holdings	958,534	99.1	3,834	59.5	4.0
Corporate farms	8,382	0.9	2,614	40.5	311.9

(Source: Commission 2002/2: 7)

The privatisation of land was carried out between 1991 and 1997 through a long, complicated and controversial process of compensation⁷⁵. Approximately 2.7 million ha. of collective and state owned land (42% of the agricultural area) were privatised through auctions⁷⁶ (Commission, 1998/1). Another two million ha of collective land was distributed among the members of co-operatives. Today, only the state (with 12%) and private individuals (with 88%) are entitled to own agricultural land. Ownership by foreign citizens and "legal persons" (co-operatives and private companies) is prohibited. As a result of privatisation, land ownership has been divided into extremely small holdings; approximately 1.5 million people received, on average, less than two hectares each. As it has been frequently claimed by politicians and experts, this fragmentation has actually prevented rather than facilitated the establishment of the property basis for new family enterprises in agriculture. Compensation and privatisation became a source of conflict and contributed to the economic and social crisis in rural areas.

As a result of the lagging registration system and semi-legal or illegal land purchases, there are many uncertainties and often contradicting estimations about land ownership, usage and the importance of various type of agricultural enterprises in Hungary. A review of Hungarian agriculture issued by the EU (Commission, 1998/1:43) claims that the use of the land is shared equally between private farms and farming organisations (co-operatives and all other businesses) and the share of production is 57% and 43% respectively. Another study by Varga (1998:118) reaches different conclusions claiming that the share of large industrial farms is still overwhelming and a leading role is still played by approximately 1000 co-operatives.

⁷⁵ The 1st, 2nd and 3rd Compensation Acts in June and July 1991 and May 1992 created the legal basis for the compensation. The deadline for finishing the whole process was Spring 1994, but it was extended several times, and some issues remain unresolved to date: for example, a large proportion of the privatised land is still undivided property of the owners, causing trouble for land registration and land market.

⁷⁶ At these auctions one could buy land using the so-called 'compensation vouchers', which were given to formerly expropriated owners as well as to other people who had suffered damage for political reasons during the previous 50 years. These vouchers have been losing their value since they were issued, and the only real possibility for their investment was the purchase of land. There was much controversy surrounding the auctions and the whole compensation process, causing conflicts, disappointment and uncertainty. Disorder and some gaps in the legislation led to speculation in properties and other semi-legal or illegal transactions.

He estimates the land used by private farmers to be approximately a quarter of the total area, and the number of viable enterprises to be between 13,000 and 18,000. A third study, by Imre Fertő (1999) claims that "as a consequence of transformation, the former extreme duality of the Hungarian agricultural system has been moderated considerably". Industrial farms use about 40% of the agricultural area and employ in total more than 100,000 workers. However, there are some 51,000 full time private or family farms and part time farms still play a significant role in Hungarian agriculture involving 1.875 million people in 1.069 million households.

The consolidation of land ownership had started in recent years. The total number of farms declined from 1991 to 2000, with special regard to the number of individual farms, which declined by about 30 % during this period (see table). In Hungary small farms are excused from certain taxes, so there is an incentive to register several farming operations within one family, even if the land is cultivated as a single unit.

Table 4. Number of individual farms by land size (thousands)

Category	1991	1994	2000
0-<0.2	645	458	374
0.2-<0.5	412	345	204
0.5-<1.0	200	152	99
1.0-<10.0	138	225	232
10.0-<100.0	1	22	49
100.0-	0	0	2
Total	1396	1202	960

(Source: Farm Structure Report of Expert Network, 2001)

In contradiction to the extreme subdivision of land ownership, a strong concentration has taken place in land utilisation. 46% of the land is cultivated by co-operative large-scale farms (farmers' co-operatives, state farms and their successor organisations). A dual structure is still apparent, but between the large-scale farms (which have been down-sized) and the traditional very small holdings, new, medium-sized, commercial farms are gradually emerging. According Burgerné - Tóth - Kovács (1999), farms which had survived until the end of the 90s have become stable and have an intention to expand. Farms above 50-100 hectares together with intensive commodity producing small-scale farms seem to be the most viable. Qualitative studies (Nemes and Heilig, 1996; Nemes, 1996; Nemes and Farkas, 1998), revealed that regional

disparities in profitability caused by natural resources and concealed by socialist agricultural policies have increased. Much of the slow recovery of agricultural production that started in 1994 was based in the agriculturally advantageous, competitive regions, and did not involve the less favoured areas. At the same time, with the general shortage of employment, small units of land (an important means for subsistence) are increasingly taking on a social welfare function, substituting for the non-existent welfare system in rural areas.

3.2.5. Productivist agriculture as a resource for rural development

Advantages

The natural resources of Hungary provide much better conditions for agricultural production than the European Union, the OECD member states or even the global average. The proportion of arable land in Hungary is almost twice as high as the EU-15 average and four times as high as that of the OECD member states, while it is five times as high as the world average. Besides this, Hungary has a good climate, large plains, a very large amount of running and ground water that can be used for irrigation and a good geographical situation close to Eastern as well as Western markets. Agriculture has always been a very important part of the domestic economy and it is likely to remain so for the future, being significant especially for the rural areas. In spite of the recent decline and a chronic lack of capital, favourable areas and sectors of Hungarian agriculture have comparative advantages in international markets. The large scale industrial production of grain, fruit, vegetables and some industrial plants should be profitable in the long term. Animal husbandry, on the other hand, is less competitive and likely to experience great difficulties after EU accession. Hungarian agriculture can still be characterised by strong duality. Marketable agricultural production comes predominantly from large farming units, inherited from socialist times and a growing number of newly established private businesses. Most family farms could not (and do not intend to) compete on European level, however, they are rather significant for rural development (Fertő 1999).

Therefore, agriculture should be seen as a crucially important resource base for rural development in Hungary, from several aspects. In those areas, having advantageous

circumstances for intensive production, agriculture has been, and is likely to remain, the main engine of the rural economy. To remain competitive, though, modernisation, investment in machinery, environmental protection and education are needed. Co-operation should be reinforced and locally added value should be raised. Under the circumstances of the growing competition marketing activities should also be strongly improved. Nevertheless, together with the connected processing industries and services, agri-food business can ensure rural livelihoods in these areas.

In those areas that for some reason are less favoured for agricultural production, agro-food sector has not been an exclusive one even traditionally, and is likely to suffer further losses of its share in the local economy in the near future. Nevertheless, agriculture still remains crucially important in most areas. It has, first of all, a strong welfare function, providing self subsistence and some supplementary income for the most disadvantaged social groups. It also provides the basis for many rural development activities: raw materials for small scale processing, arts and crafts; helps to maintain cultural landscapes, built environment, cultural heritage and a traditional way of life, all essential for rural tourism, for example. Agriculture, as an economic activity, also creates a legitimate basis for receiving EU and domestic aid, through LFA and ESA schemes, agri-environmental and rural development policies. In other words, agriculture in less favoured areas is crucial for maintaining and utilising cultural, community and ecological values. Therefore, both production types are essential for the future of the rural economy and society and should be maintained.

Difficulties

One of the greatest difficulties for the development of Hungarian agriculture can be expected in land consolidation. Current legislation on land ownership excludes any businesses and any non-Hungarian citizens from the purchase of agricultural land. This is likely to remain so for a long transition period even after EU accession. This legislation is to protect the interests of Hungarian producers against foreign speculative purchases. However, it also prevents the formation of a working land market (land prices are generally less than 10% of those in the EU), and also prevents the flow of the ownership of the land to its real users (co-operatives and businesses) making any long term planning impossible for them. In the current situation the land

cannot be used as collateral for loans, and this results in a continued lack of capital in agricultural production⁷⁷.

Other major problems arise from the lack of market institutions, administration, and business support facilities. During socialist times most of these activities were covered by state farms, co-operatives and some large state-owned companies, as agricultural production and trade used to be part of the so-called 'planned (and centrally organised) economy'. Nevertheless, together with the co-operatives the services also disappeared. Currently there are two different directions replacing the old system. One is a rapidly developing network of various vertical integrations, often owned by multinational agricultural companies (MONSANTO, CEREOL, etc.) or processing plants usually also owned by foreign companies (e.g. Hungrana KFT,). The other is an advisory network, built on the basis of the existing agricultural intelligentsia and financed by the government – the so-called 'falugazdász' network⁷⁸. However, vertical integration mostly concentrates on the most advantageous agricultural areas, and the 'falugazdász' network due to lack of sufficient financial resources and political attacks has always had serious problems. Therefore, many producers, especially in less favoured areas do not have sufficient help or professional advice.

Another problem - insufficient knowledge of EU regulations and support schemes – is strongly connected to the previous one. Without a well working advisory network the Hungarian producers will not be able to fulfil EU requirements or access CAP funds and subsidies. Further difficulties are caused by a general unwillingness of producers to set up co-operatives. The main reasons for this may be bad memories of forced co-operation from the past (see 3.2.1. for more details). However, the strong message for competition (and the requirement of competitiveness), communicated by EU and domestic policies and the media in general does not make co-operation easier. Finally

⁷⁷ There is no legal, and at the same time, rational way for western investors to invest into Hungarian agriculture since they can neither buy nor rent the land for the long term. Therefore, there is no investment; or rather the investments are based on 'pocket contracts' or other illegal operations.

⁷⁸ This was organised partly to ensure employment for the unemployed agricultural engineers falling out of the co-operative system, partly to provide professional advice and bureaucratic services for the emerging private agricultural enterprises.

the agri-food sector is likely to face serious difficulties in the field of environmental, health and quality standards in the near future.

3.3. Socio-economic changes and regional development in Hungarian rurality

Hungarian settlement system, rural policies as well as the economy and society as a whole underwent various waves of changes, reforms and modernisation. The following section explores regional differences within Hungary; outlines historic trends, effecting the current situation; reviews regional, rural and environmental policies and the available resources for rural development purposes during the last decade. Finally it analyses the most important tendencies of migration in the countryside, making some comparisons with western European processes.

3.3.1. Regional differences within Hungary

Regional differences have their roots in geography and political history, as well as in processes of global economic development. These factors are all interdependent, and their characteristics, as well as their importance, can change over time (Gorzalak, 1996 and 1992, Enyedi, 1996). However, there are major historical trends that cannot be ignored. Only those developments and policies which fit into these long-term processes can result in fundamental changes to the use of geographical space. For Hungary one of the main driving forces certainly is its 'Central Europeanness'. Being on the semi-periphery of two big European models - wishing to catch up with Western improvements, repeatedly interrupted by Eastern invasions - has resulted in many contradictory and incomplete developments. This has obviously left its mark; not only on culture and society, but also on the functional structure and use of space (Nemes & Heilig 1996, Szűcs, 1985). A central feature has been the existence and role of the capital, Budapest (Enyedi, 1994, 1996, Tóth, 1994 and others).

Budapest, the only metropolis of the country, is (and has been for a long time) the centre of information, finance, trade, politics, decision-making, research, education and culture in Hungary. In other words, economically, geographically and politically it is the absolute centre of the country (see 2.2.1.). For Hungarians it is the gateway to

the world, having the country's only international airport. All important roads and railways start from Budapest; most of the country's bridges across the Danube have been built there. In itself, the capital generates more than one third of the GDP and has received almost 60% of all foreign investments in recent years. The development chances of whole regions are highly dependent on their geographic or social distance from this overwhelming centre. Practically all important political institutions, company headquarters, and most of the public and private research and development (R&D) potential is in the Capital. In almost every aspect, the differences between Budapest and the rest of the country are far larger than any other regional differences within Hungary. According to the OECD definition, this is the only predominantly urban region, compared to which the rest of the country is peripheral in most aspects. Similarly to some EU countries (Ireland for example), the future possibilities for the whole of Hungary are closely tied to Budapest's ability to compete with other major European cities in the near future (Enyedi, 1996).

Aside from Budapest, the most significant division between Hungarian regions is an East-West one, which can also be traced back in history. The 7 Hungarian regions (see figure 5 at the beginning of this Chapter) had only been recently established. Regional differences often cut through these new geopolitical entities. Therefore, in the following explanation somewhat different geographical categories are used (however, the name of the regions are also indicated).

The *West of Hungary*, Transdanubia⁷⁹, comprising the territory situated west of the River Danube, is traditionally the more modern and developed part of the country. This area has always been a bit less on the periphery, closer to the cultures, markets and more advanced technology of Western Europe. Compared to other areas this region has good physical access, railways, motorways and principal roads. Agricultural land, in the past, was used predominantly by large well-organised estates that employed modern technology and produced food mainly for Western European markets. Even socialist industrialisation turned out to be advantageous for this area, since the strategically less important industries (e.g. chemical and light industry) were

⁷⁹ It includes three regions: South-, North-, and West-transdanubia; and also a small part of Middle Hungary.

concentrated here. Consequently, the shock of the recent decline of heavy industries was not as deep as in other parts of the country. During the 1990s, building on previous industrial potential, a number of multinational companies established large factories in the west of the country. Transdanubia has characteristic natural borders, big rivers and ranges of mountains. In contrast with other areas of the country and largely due to these natural barriers, it has always had a certain unity, and thus under the Treaty of Trianon this region did not lose its cultural and economic centres. The Ottoman Empire did not occupy most of this area and the medieval settlement system was not destroyed. There are traditionally more urban centres, more industry, more roads (even from Roman times), and better infrastructure here than in the East of the country.

However, most of these advantages accumulate in the mid-northern part of Transdanubia, in the so-called '*Vienna-Budapest axis*' and the area of *Lake Balaton*. This region is situated along important routes of trade and transport, has natural resources (e.g. coal and bauxite, scenic countryside) and a relatively high density of towns and cities. Even socialist industrialisation policies were advantageous for the area in the long term since mainly chemical, electronics and other more advanced manufacturing were located there. As a result, after the *Changes* a number of multinational companies made investments in the region and built industrial plants, taking advantage of easy access, developed infrastructure, cheap but skilled labour and local tax preferences. Important examples are: Opel, Suzuki, IBM, etc. Some of these placed even their Central and Eastern European headquarters in Hungary and/or developed a wide network of domestic contractors. Alongside this, various elements of business access (financial and legislative services, for example) were also developed to an advanced level. Most of these companies enjoy exclusive taxation and local tariff preferences, and through employment of subcontractors they reinforce the overall economic capacity of the region⁸⁰. Physical, as well as human, infrastructure is only second to Budapest; this area claims the highest level of

⁸⁰ There are some multinational companies, however, which started to close down processing plants, due to raising costs of man-power and expiration of temporary tax agreements. An example could be a large plant of IBM, which closed down recently in Székesfehérvár, leaving thousands of unemployed behind. If this tendency continues, it can seriously compromise the economic and social stability of the region.

qualified population (Tóth, 1993: 310-311); therefore, circumstances are much more favourable for a post-modern market economy here than in other parts of the country.

This area has the largest number of small private enterprises and, with the exception of the capital, has had the most foreign investment since the introduction of the market economy (Enyedi, 1996, pp. 116, 87). This region also has the largest holiday and tourist resorts of the country, including the Lake Balaton and the Danube Bend, attracting millions of people from all over the world. The western part of this region that borders Austria was kept artificially backward and isolated during the Cold War; since then it has been developing rapidly especially in the last decade. Overall, this region is the least affected by access and resource type disadvantages. Nevertheless, between the industrial and tourist centres (mainly in mountainous areas and in the north-east called the Small Plain) there are still some smaller rural areas with serious rural development problems.

In contrast to this, the *southern part of South-transdanubia*, south of the tourist region of Balaton, is quite backward and very rural. Physical access is very bad, there is no motorway in the region, for example. Agricultural conditions in the areas of woodlands and mountains are quite poor. Most of the region lacks big industrial and cultural centres, mineral resources and good transport systems, indeed there are less towns and cities than in the North. The economy of the only sizeable city, Pécs, was predominantly based on mining coal and uranium, which collapsed leading to high unemployment figures in recent years. Nevertheless, Pécs has remained as an important regional centre of information, research, education, culture and different economic activities. This region was also badly affected by the problems in the former Yugoslavia during the early 1990s. The settlement system contains a lot of very small villages. Several territories have typical rural development problems such as out-migration, deep economic recession, an ageing population and a high density of disadvantaged ethnic and social groups. At least some areas of the region can be classified among the most disadvantaged ones in the country, having serious problems in the field of both, access and resource type disadvantages.

The *East of Hungary*⁸¹ is traditionally the least developed part of the country. It was always far from western markets and innovations, and suffered more from wars and shifting borders. It has always had bad physical access, poor infrastructure and transport systems, and less industrial and cultural centres than the west. However, this eastern part is also far from homogenous, it has got at least three characteristically different regions in terms of economic, human and physical geography.

The *middle* and the *south* of the East of Hungary contain the core of the Great Plain. As a result of historical development this region has no small settlements. Instead it has very few cities and a number of small country towns and very large villages, as well as a special Hungarian feature, the '*tanyák*'. This is a sort of farm situated in the open countryside where people live and work in the same place. Most of this area has very good conditions for agricultural production, and it has been predominantly agricultural. Even today agriculture employs almost one quarter of the population. From the 1960s considerable processing industry was developed. This region represents the core of agri-food business potential of the country and rural development problems are not as acute as in more peripheral areas. The main problems of this area are closely connected to the recession, transformation and to future prospects for agriculture and food processing industries. Resources for intensive agricultural production are good, and after the deep crisis of the early 1990s, a slow recovery has already started, promising prosperity and competitiveness for the future. The progress of the region mainly depends on the position that Hungary can reach in European and world food markets in the future.

The *north of Hungary*, containing the Northern Range of Mountains is significantly different from the south: geographically, socially and economically. This is the area of the country, which has undergone the most transformations as a result of external political and economic changes during this century. This region, containing mostly mountains, uplands and forests, has poor resources for agriculture. The settlement system, similarly to the Southwest of Hungary, is characteristically scattered. The loss of the northern territories after the First World War left this territory without its natural centres; not even towns remained in the northern part of the region as most of

⁸¹ Comprising Northern and Middle Hungary, and the South- and the North-plain.

the infrastructure and transport systems had gone to Slovakia. This has led to continuing social and economic difficulties in the area.

During the 1950s certain localities of Northern Hungary became the main target areas of socialist 'heavy-industrialisation'. The steel and manufacturing industries and later chemical industry were set up and many large coal mines were opened. A new Budapest-Miskolc industrial axis was created by the state-socialist economy (Enyedi, 1996). New cities were built. However, a substantial part of the population remained in villages, but commuted to industrial and mining centres. Employment became predominantly industrial. During the late 1980s these northern counties, including Borsod and Nógrád, had the least employees in agriculture, despite being otherwise some of the most rural areas of the country. Agricultural production remained important for many families, if not for employment, then as self-supporting or supplementary income. Infrastructure had been developed mainly in order to meet the minimum requirements of industry and not for raising the standard of living. From the early 1980s an accelerating decline of heavy industry started in the region. Large efforts through investments based on foreign loans were made, not to change the outdated economic structure, but simply to maintain it. From the early 1990s this was no longer possible and industrial commuters of this area became the first unemployed people of the country. Everything collapsed. The region, which used to be a beneficiary of political and financial assistance in the socialist system, became the biggest loser of 'The Changes'.

In many aspects this region is very similar to Southern Transdanubia, even though there are many differences in their economic and social structure, resources and foreseeable prospects as well. Being in a traditionally more peripheral situation, access and resource type disadvantages are likely to cause more serious problems here in the long run.

The *far north-east of Hungary* (south-east of the territory discussed above) geographically belongs to the Great Plain, yet in many respects it is very different from it. Conditions for agriculture are not that favourable mainly because of poor soils and the region has no mineral resources. The settlement system contains many small, scattered villages and the area has been cut off from traditional centres since the First World War. It did not benefit from the industrialisation of the 1950s and '60s,

therefore its infrastructure and transport systems have remained quite poor. This area accumulates all the unfavourable circumstances of remoteness and being located in the East. Access and resource type disadvantages are the most serious here. According to almost every statistic – the levels of qualified people, illiteracy or out-migration, for example - this area was traditionally the most disadvantaged part of the country. During the mid-1990s it was in a slightly better position compared to some areas of the North only because there was no heavy industry to collapse. However, agriculture and food processing has declined substantially due the collapse of neighbouring Russian markets and changes in the agri-food sector. In the long run this is probably still the most backward region, having the least human, economic and natural resources, and the least chance for catching up with the development of other regions of Hungary. Nevertheless, if Ukrainian and other eastern markets open, this region could have certain advantages, and its location could make it a gateway to the East.

3.3.2. Industrialisation and rurality

Besides changes in agriculture, *industrialisation* also had a big influence on rural areas. Since the main aim of state-socialist development policies was to build a modern, socialist, industrial economy and society, most resources were used to help industrialisation. Therefore, features of physical and human infrastructure, the usual subjects of regional policies, were developed first, if not solely, in areas selected for industrial use.

The first phase was the so-called *forced period* of industrialisation, during the 1950s. Traditional heavy and energy industries were built up in the North of Hungary, and to a lesser extent in North-Transdanubia. Development was mainly confined to some industrial and mining centres. Although there was a big migration to these centres, which also attracted tens of thousands of commuters from a wide rural hinterland, outside these territories the economic and social structure of the countryside as a whole remained unchanged. It was the emergence of the processing industry in the 1960s that led to bigger changes. Factories were built in many provincial centres. Daily commuting to industrial jobs became an available option for a much wider population. This process continued in the 1970s with the founding of the industrial sidelines of agricultural co-operatives and other affiliated companies, mentioned

above. By the early 1980s there was some sort of industrial production going on in the majority of rural towns and larger villages, although with significant regional differences. Commuting by rural workers became a fundamental characteristic of the rural economy. Before the changes of the late 1980s, one quarter of Hungarian employees were commuters - the smaller the village, the higher the level of commuting. In many of the smaller villages practically everybody commuted, and not only those working in industry or services since the co-operatives were also run from the central villages. This was possible because the Hungarian countryside had a fairly good public transport system. Fares were low, and season tickets had to be paid for, or buses provided, by the employers. This eased access to industrial jobs for the rural population to a great extent.

From the mid-1980s with the increasing crisis of the Hungarian economy, rural industry started to decline. The crisis of the 1990s was the deepest in former commuter areas of mining and traditional heavy industry, most notably in the north of Hungary. Because they were more costly (due to transport costs), rural commuters were the first to be dismissed, when redundancies were deemed necessary. The urban centres in crisis had better infrastructure and human resources, as well as trade unions to protect the interests of those dismissed. They were also at the centre of public attention. Therefore various crisis programmes and external aids were set up to help them. In contrast, the former commuter areas got hardly any help, had much poorer resources, and their crisis was worsened by the collapse of agriculture. Unemployment figures in former commuter villages in the north went up to 80% (Hajdú, 1993).

At the same time the majority of *industrial sidelines* and affiliated companies working in rural areas in light industry using outdated technology were closed down or went bankrupt⁸². This meant that the number of industrial jobs within rural areas fell substantially nationwide. The situation in the food processing industry, which had reached a more advanced technological stage, was much better. Much of this industry was successfully privatised during the first years of transition. Considerable

⁸² This was parallel to the process of the disappearing of rural industrial branch-plant economy in the west (see 1.2.3. for details).

investments by western companies, based mainly in the EU, were undertaken. Although a significant proportion of the jobs was lost, most of the firms did not actually close.

During the first four years of transition the number of people employed by industry fell by almost one third, affecting 1,350,000 workers. The rural industrialisation of the state-socialist systems, therefore, failed to stand the test of economic liberalisation. Nevertheless, it had fundamentally changed the structure of rural employment and human resources, having far reaching consequences for the future. Much of the workforce of the countryside today is skilled and semiskilled industrial workers, and - especially the younger generations – professionals.

3.3.3. The effects of regional policies on Hungarian rurality before the 1990s

Regional administration, country-planning and regional development policies, reflected the main aims of the state-socialist system in Hungary. The development of community services and infrastructure, at least in rural areas, was usually sacrificed in the interest of socialist economic development. Moreover, even the deficient resources that remained for regional development were not distributed rationally. In a small region the leader of the local-regional economy - director of 'The Factory' or 'The Mine' or president of 'The Co-operative' - had an overwhelming influence on the division of resources. There was no normative system of distribution and almost everything depended on lobbying power. Only those villages which had the head office of a company or a co-operative, or some 'important comrades' living or born there (Pálné, 1993), had a chance to get central resources for local development. Remote or backward settlements usually did not get anything. Hungary traditionally has a system of autonomous local municipalities, which are essentially responsible for the majority of local matters and have great freedom in organising and managing local social and political life. 'Local' in Hungary, refers to the level of a town or a village. Although this system was weakened by the political control of state socialism, it has always remained an important factor in rural areas.

There was a range of regional development policies during the 40 years of socialism, under the main trend of decentralisation, or rather centralisation on lower and lower

levels. Regional and spatial development was organised by a centrally driven, administrative planning system. Responsibilities were shared by the central and the county level, however, the power was controlled by the former. Development was divided along sectoral lines, political and sectoral objectives were superior to regional concerns in government policies (Horváth, 1998). In the 1950s most resources for development went to the centres of heavy industry. During the following decade the scope was widened by half a dozen cities in other areas, aiming at the reduction of regional differences. Then in the 1970s it was realised that the development of industry in itself did not bring cohesion and approximately one hundred territorial centres were singled out for development.

The most important policy package was introduced in 1971 (Hajdú, 1993). This had probably the largest influence on rural life and use of rural space in Hungary. The plan did not try to define rural regions, but classified every settlement by its function, and arranged resources for development in accordance with its importance. Almost 2000 villages, two thirds of all the Hungarian settlements were ranked under the 'villages without function - no need for development' category. As a result, most of these villages lost their autonomy, received hardly anything for development during the following 20 years and became backward peripheries even within rural areas. So-called 'low level centres' (or central villages) were designated, the smaller settlements around them were attached to these. At first the local council and later almost all the important services (health service, school, etc.) were removed from satellite settlements. Co-operatives were also merged and the headquarters of the big co-operatives as well as the new industrial sidelines were usually built in the central villages. Most of the side villages remained without any resources, or economic or political power⁸³.

As a consequence, these villages rapidly started to decline. Systematic out-migration of younger, skilled people occurred. Some of them went to more distant cities, but many only into the central village or other small regional centres. This process meant not only the loss of human resources, but also a massive outflow of money, since the building or purchase of new family homes was financially assisted by the parents,

⁸³ In some places, by planning permission, it was forbidden even to build new private houses.

who usually remained in the original village. The damage was worst in the areas of scattered and very small villages in the north-east and south-west, but there were declining villages all over the country. Some settlements totally disappeared and many remained only with elderly populations. At the same time in 'central villages' services and infrastructures were modernised from central resources. Many of these developed into small country towns by the early 1990s. As a result of these processes, besides major regional inequalities, marked differences appeared and were strengthened within small territories causing a lot of local conflicts between subsidiary and central villages that continue to this day.

During the 1980s massive depopulation and other severe rural development problems became obvious. Many mistakes of previously over-centralised spatial policies were recognised, but lacking resources very little could be done to correct them. In 1985 new principles were accepted by the Government for regional development, with the elements of aiming concentration of central resources and a greater use of indigenous ones. Two counties in the Northeast (Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg) were chosen as special target areas. Resources were concentrated on communal infrastructure, most notably the building of water pipes and roads, and on the restructuring and maintenance of declining heavy industry in the region (Enyedi, 1996).

Administrative difficulties were diminished⁸⁴, and the modest boom of the rural economy - resulting from pluriactivity, a lot of extra work and the flourishing of small agricultural enterprises - made it possible to undertake private investments. Most private capital was spent on the building and modernisation of family homes. Housing conditions in many rural areas improved a lot. Hungarian villages became 'two-storeyed' over these years. New buildings in rural areas were almost always built with the financial and physical collaboration of family, friends and neighbours.

⁸⁴ The previous ban on the construction of new buildings and infrastructure in small villages was diminished for example.

3.3.4. Migration tendencies in the 1990s

Since the early '90s previous migration tendencies in rural areas have changed significantly. In 1990 the number of rural inhabitants, representing 35.2% of the whole population, reached an all-time low in Hungary. The number of rural residents has been growing continuously since then as a result of positive migration tendencies rather than the positive birth rate⁸⁵. This was the consequence of both, parallel and contradictory socio-economic processes, resulting in a significant growth of diversity within Hungarian rural areas.

Table 5. Migration tendencies in Hungarian villages

	Population of villages within the whole population of Hungary	Population of villages (thousands)	Margin of migration in villages (permanent)	Margin of migration in villages (temporary)
1960	45,6	4539		
1970	40,8	4208		
1980	37,0	3962		
1990	35,2	3655	3694	-10556
1995	35,9	3675	18088	-966
1996	36,0	3678	15629	-2547
1997	36,1	3675	13661	6946
1998	36,3	3681	15481	1778
1999	36,5	3682		

Source: KSH

Some of the immigration into Hungarian rural areas parallels that of counterurbanisation in Western Europe (see 1.2.3.). Affluent, commuting professional families have moved to the outskirts of cities, mainly around Budapest and a few more urban centres. Scenic landscape and cheap property prices in small rural villages have attracted many pensioners from Austria, Germany and some other western countries. Some multinational companies, undertaking green field investments in rural locations, moved their management into villages, and new industrial plants have also created their own commuter zones. Other, more remote villages have become destinations for so-called 'urban refugees' (such as artists, intellectuals, or members of ecological movements) who wanted to move away from polluted and busy cities.

⁸⁵ Nevertheless, the population of the smallest settlements (under a 1000 inhabitants) has continued to decline.

In most of rural Hungary, however, the majority of immigrants are poor people, attracted by cheap housing, low bills and the possibility of agricultural production for self sufficiency (Dorgai et al. 1997). There are several different types of these disadvantaged social groups. A large proportion of them are Gypsy families moving away from rural and urban ghettos which were created by the state-socialist system. Cities and more prosperous villages often try to 'export' their poor, disadvantaged population into backward neighbouring villages⁸⁶. These people are often not welcomed by local authorities and non-Gypsy communities. They also have very little purchasing power. Therefore, they mainly migrate to the most backward villages, which after massive out-migration, have many unoccupied houses. Another large group of poor people moving into villages consists of former industrial workers driven by urban unemployment. Through selling their urban apartments they usually have some capital to invest, so they can afford slightly better housing in settlements with better location and services than the group of Gypsy families mentioned above. Many of these people, or their parents, are former out-migrants from villages. They still have relatives in the countryside and often try to move back near to their original homes.

At the same time there has been reduced out-migration of the indigenous populations of rural areas. The growth of property prices in the early 1990s was steeper in urban than in rural areas. Following the collapse of the rural economy, moreover, parents could no longer support their children to acquire urban housing. Therefore, for rural youth it became increasingly difficult to move into cities⁸⁷. On the other hand, the new local authorities could offer local employment, both in their institutions and through centrally supported employment programmes. Other local programmes, such as providing cheap building sites for young families, also often provided a strong incentive to stay in (or to move into) small villages.

⁸⁶ Gypsy families with high unpaid utility bills have been evicted from their urban flats, and offered houses in rural locations, purchased by the urban authorities.

⁸⁷ In Hungary there is no mortgage system. Council flats have been sold, social housing practically does not exist any more. Housing prices, as well as rents, compared to salaries, are very high in urban centres. At the same time, after the collapse of the rural economy, most parents living in villages can no longer help to buy or build houses for their children. Consequently, for young families it is almost impossible to leave their village and move to the city.

Thus the recent growth of the rural population of Hungary reflects the fact that rural areas are retaining more of their indigenous population, as well as attracting unemployed and disadvantaged groups marginalised by the restructuring of the urban economy. Unlike in the case of Western Europe, there are very few wealthy, influential families with urban jobs and connections, moving to the 'deep countryside'. Instead, social and ethnic problems, and various access and resource type disadvantages have accumulated in many Hungarian rural areas in recent years. These facts have various consequences for the possibilities of rural development (perhaps fewer resources, but a more homogenous population, for example), and by themselves lead to different circumstances in the field of human resources and possible local actions, compared to Western European experience.

3.3.5. Regional development problems in Hungarian rurality⁸⁸

There are a number of regional development problems in Hungary either inherited from the past or that have emerged in the transition of the past decade. Regional differences have been growing rapidly since the late 1980s. Budapest and a few other areas have good future prospects in the EU. However, there are large, backward rural areas with a poorly educated and ageing population, bad infrastructure, high unemployment and a high proportion of gypsy population, which lack economic and cultural centres. These communities do not have very promising expectations for the future. The relative backwardness of these areas is likely to increase as a result of EU membership, or even during the pre-accession process. There are a lot of economic, human, cultural and natural resources in these areas, though the scale at which these could be used is usually too small for regional development objectives. The regional development system, especially at the lower levels, does not function well yet. There are also some misunderstandings and a lack of effective communication on a policy level, between Budapest and Brussels, concerning budgets and the administration of PHARE aid. As a consequence, millions of Euros have been lost to Hungarian regional development during the last few years.

⁸⁸ For development problems in connection with environmental issues see 3.5.1. below. For problems concerning social networks and co-operation see 3.5.4. Development problems concerning agriculture are discussed in detail in 3.2., and are summarised in 3.6.

There are a number of backward areas, accumulating access- and resource-type disadvantages, which would require integrated rural development to stop the general decline and to sustain local culture, society, economy and ecosystems. Problems and appropriate solutions vary greatly according to local circumstances, although common access- and resource-type disadvantages can be found all over the country. Some of the most serious problems include: isolation from economic centres; difficulties to access information; unemployment; low levels of income; poor infrastructure and service facilities (a significant obstacle for entrepreneurship and counter-urbanisation); and lack of services, skills and marketing for rural tourism. There are severe problems connected to agriculture such as ageing and depopulation (especially in the smallest villages, many of which might become deserted in a couple of decades); minority problems (rooted in culture, low education, learning abilities and life expectancy, poverty and bad health conditions, etc.); environmental pressure from certain de-industrialised areas and agri-environmental problems resulting from land abandonment and improper farm management plus social exclusion.

Some data to illustrate these problems follows (MARD 1999): 63% of the small regions have complex, qualified access times of over 30 minutes; the number of telephone lines per 100 people is 35,4; Ratio of flats connected to the public sewage system: 48%; ratio of sewage cleaned by biological means 53%; in emergency medical care the time for the National Ambulance Service to arrive exceeds 15 minutes in 24% of the cases; treatment time per 100 residents in medical treatment facilities 1500-3300 hours in the central regions, 900 hours in peripheral regions; the gross wages in agriculture are 70% of the average; unemployment is under 10% in the centres and several times higher in the peripheral regions.

The ignorance of local resources and weak socio-economic networks, a lack of willingness for co-operation between local authorities, entrepreneurs and individuals due to personal conflicts, or past tensions can also create problems for rural development. There is often a general feeling of waiting for help from outside, instead of trying to find resources and solutions locally. Many areas of Hungarian countryside are very rich in nature, culture, and social networks that are essential for local development. This means that Hungarian rural areas are rich in many rural values, which have had to be rediscovered or even rebuilt by rural development in the West.

However, in Hungary there is a lack of culture, training and infrastructure to appreciate these and to utilise them for rural development. Many values might be lost before significant EU programmes and development resources become available for rural development. In this case Hungarian rural areas might follow the way of their Western counterparts. This, alongside the lack of clear, strategic long-term thinking at various levels should be considered the most worrying problem for rural development in Hungary.

3.4. Policies, institutions and stakeholders in Hungarian rural development

During the last decade a number of different organisations were created or modified in order to participate in policy-making, implementation and management of rural development activities. These organisations can be found in various sectors of the economy, public policy-making, bureaucracy and civil society. To achieve rural development objectives they often form (or are forced to form) public/private/civil partnerships. This process, along with new legislation and policies, contributes to the institutionalisation (or the construction) of a new rural development system in Hungary. This section firstly examines the policies and the available resources for rural development during the 1990 and at the beginning of the millennium. Then I explore the most important ones of those institutions and organisations which have been involved in the design and the implementation of these policies.

3.4.1. Policies and financial resources for development since 1990

The democratic system created a totally new environment for the development of rural areas in Hungary. With the Act on Local Governments (LXV/1990), local municipalities regained their independence, resources and responsibilities. With the setting up of the Ministry of Environment and Regional Development in 1990 (established by LXVIII/1990 Act), a separate institutional system for regional development policies was established.

The next significant change in the institutional and legislative system came with the introduction of the Act on Regional Policy and Physical Planning (XXI/1996). This

legislation and the subsequent National Regional Development Concept were already designed to fulfil EU requirements (Horváth 1998). The emerging regional level planning, decision-making and administrative system was assessed by the EU as the most progressive of its kind in Central and Eastern Europe (Commission 1998/2). The legislation created a multi-level, decentralised system for regional development and initiated the creation of larger (NUTS 2) regions, in addition to traditional levels of planning (see more details in the next section and in Chapter 5.). The Act is based on the most important principles of EU regulations and fulfils the requirements for accession. In 1997 such a plan began to be developed in two competing ministries. The Ministry of Agriculture commissioned the Institute for Agricultural Research and Information to write the Plan, while the Ministry of Environment and Regional Development employed the Town Planning Institute to do the same task (see more details in Chapter 4.).

The launch of the accession negotiations and the preparation for the EU pre-accession programmes (especially for SAPARD) brought significant changes for Hungarian rural development. After the elections in 1998, under the new government, institutions, resources and responsibilities for regional development were imported into the new 'super department', the Ministry of Agriculture and Regional Development (MARD). Even the term, 'rural development' became widely known in Hungary only after the creation of the new rural-agricultural ministry and the launch of the SAPARD programme. Following the example of the EU the emphasis was transferred towards the agricultural elements of rural development. Units for EU integration were set up in every ministry and development programmes were designed at various levels. A new vocabulary, consisting of expressions of the new Euro-jargon (partnership, decentralisation, bottom-up, etc.) started to become common in the bureaucracy.

Development measures, in general, were to be harmonised with future EU policies. Some measures, included in the 'second pillar' of EU CAP (see 1.2. for details) have had long traditions in Hungary. Afforestation, for example, has been a regular measure since the early 1960s, in Hungarian agricultural policies. Other measures, such as small-scale agricultural investment, support for young farmers or the designation of less favoured areas were launched in connection with preparation for

EU membership. Yet other measures, such as early retirement, are still missing from the Hungarian system.

Another, potentially very important policy package, accepted by the government in 1999, is the *National Agri-environmental Programme (NAEP)*, which is to protect the environment and to serve the socio-economic development of rural areas. The NAEP contains two main groups of measures, such as horizontal and zonal schemes. The voluntary *horizontal schemes* apply to all agricultural land. Farmers – cultivating no less than 1 ha - could make a contract for 5 years. Support is provided for environmentally friendly production methods (e.g. reduced use of fertilizers and pesticides, environmental farm plans) and nature oriented land use systems targeted at quality food production. Specific *zonal schemes* target high natural value areas, assisting the environmental and nature protection focused land use. These schemes relate to Environmentally Sensitive Areas (ESA), which require special cultivation practices. (Balázs et al. 2001; Institute of Environmental Management 2002).

The programme is very promising, though after several years of delay it only started in 2002, therefore there is little evidence about the success of its implementation yet. The introduction of the programme was delayed due to the failure to deliver HUF 6.5 billion planned within the agricultural budget in 2000. The NAEP finally began in 2002 with a reduced budget of HUF 2.2 billion. This amount was only enough to launch the horizontal elements of the programme in a reduced form and the zonal schemes only began in a few pilot areas. In spite of the low level of support and often lacking information, the budget was oversubscribed more than twice by satisfactory applications. According to the original plans for 2003, the NAEP budget should have been increased fourfold. Nevertheless, as a consequence of last minute bargaining, without any agreement with NGOs or other ministries, the actual budget was reduced again to HUF 4 billion. These resources are hardly sufficient for supporting current contracts and the previous year's satisfactory applications; therefore a significant extension of the programme is being postponed once again.

Resources for rural development

At the beginning of the 1990s, local authorities received significant support from central redistribution. The peak of this was in 1993, when more than 20% of the central budget went directly to local authorities, as normative support⁸⁹. At the same time PHARE aid also became available, in which special programmes for regional development were introduced in 1993, with a budget of Euro 10 million. The main aims of these programmes were to facilitate the reform of regional policies and to start pilot development programmes in the most backward Northeast region. To help in the restructuring of Hungarian agriculture, some Euro 75.8 million of PHARE aid was spent during the first five years of the programme. Most of this money was devoted to the improvement of the agricultural finance system, but the processing industry and investments in agricultural production were also subsidised by these programmes. The development of physical infrastructure also received significant support, some Euro 37 million during the first five years, having positive effects in urban as well as rural areas. Specifically for the enhancement of the emerging regional development system PHARE (1996 and 1997) established an Euro 18 million fund to help the development of regional (NUTS II) institutions and also of regional identities through pilot programmes⁹⁰ (see details in Chapter 5).

Thus, during the early 1990s available domestic and external financial resources were favourable for the development of physical infrastructure and created a chance for small settlements to make up for some of their backwardness. Building on central resources, bank loans, and the contribution of local communities, many infrastructural investments were undertaken in backward rural areas. This meant the building of roads, water and sewage plants and pipes, the large extension of gas pipelines and

⁸⁹ 'Normative support' in the Hungarian terminology is the central financial support for local authorities, based on formula, linked to local tax revenues.

⁹⁰ For administrative reasons, quite a large proportion of PHARE regional development resources arrived only after several years delay or could not be spent at all. According to the opinion of several EU officials (interviewed in Brussels) the reason for this is the inadequacy of Hungarian management of rural regional development and the delay of the implementation of the Regional Development Act. However, the Hungarian officials believed that, the main reason for the delay was due to the obstructive attitude of EU bureaucrats towards certain issues.

modern telecommunication systems⁹¹. Schools, gyms, youth centres and other community buildings were also built or refurbished in large numbers. Today, basic utilities (water, gas, electricity, telephone) are available virtually in all villages. This represents a large improvement in the field of access- and resource-type disadvantages (see 2.2.3.) and has significantly closed the urban-rural development gap in Hungary.

Resources for integrated rural development within agricultural policies only started in connection with the preparation for SAPARD. In spring 1999, the Rural Development Unit of MARD launched a programme, which provided resources for rural local authorities to form associations (commonly called as called SAPARD micro-regions), to explore their needs and resources and to write their own strategic development programmes (SAPARD Micro-regional Programmes). Subsequent rounds of this programme provided training for the representatives of the established micro-regions and further resources to write their operational programmes. The available budget for these programmes was small (each micro-region received approximately 8 thousand Euros in the first round). However, the money acted as a catalyst to commence or reinforce rural development activities in many villages. As a result of this and subsequent programmes, today micro-regional development associations cover the whole of rural Hungary.

The system was also tested through pilot rural development programmes, subsidised by MARD. The pre-accession programme was delayed; however EUR 5.6 million of match-funding for the rural development measures was already designated in the national budget. Based on these modest resources a range of rural development programmes were launched by the Ministry, supporting tourism, local infrastructural development, diversification of the rural economy and a range of other activities, such as establishing partnerships and writing local development programmes. The policy continued during the years that followed with a significantly growing budget and developing institutional system. (For a detailed analysis of rural development programmes see the next chapter.)

⁹¹ Between 1991-94, some 59 % of the rural development fund, for example, was spent on building of gas-pipes, and another 26% on roads and telephone lines (Szaló, 1999).

During the 1990s local authorities, development associations, businesses and other actors of local development started to learn about EU administration and the system of funds and applications. A system of micro-regions informed by programmes like LEADER and EU rural development rhetoric started to emerge, having increasing importance and significance. At the national level, PHARE Offices were created in every significant area, officials were trained and experts of various fields were assembled. European issues became an increasingly important consideration for domestic policies (Nemes 1999). New considerations, such as the environment, the use of local resources or strategic planning became parts of the political agenda, although sometimes only at the level of rhetoric. At the same time, human resources were further developed at the sub-regional and local levels. Many NGOs were set up or reinforced, building institutions and gathering expertise in development work.

Nevertheless, this period has also been criticised for a number of reasons. Besides infrastructural developments, other important goals, like job creation, the development of business services or human resources had little attention. At the same time, many of the new local municipalities were driven to bankruptcy by investing in infrastructure beyond their means. Another common critique of the developments of this period is that there were very limited possibilities for the local population to utilise these recent improvements. They often cannot pay the high gas bills, and to run the newly built institutions (schools, community centres, development agencies, health services, etc.) is many times beyond the means of the financially failing local municipalities.

From the mid 1990s the financial circumstances for the development of local infrastructures changed significantly. The level of normative domestic support was gradually reduced - down to just over 12% in 1999 – giving space to other forms of redistribution, based on political preferences. As local authorities claim, today normative support is hardly enough for the proper working of local institutions, and there is no surplus for any development. They have the right to raise local taxes, but local people in backward areas would not have much ability to pay. Therefore, local taxes on average contribute less than 10% to the budget of Hungarian settlements. Thus, especially small villages due to lack of money cannot provide match funding, and therefore cannot apply for domestic or EU rural development programmes. This

often hinders the finishing of necessary infrastructural developments and/or the maintenance of previous improvements.

3.4.2. Central government

The main power concerning rural development issues is in the hands of the Minister and the bureaucracy of the *Ministry of Agriculture and Rural Development* (MARD). This Ministry has overall responsibility for agriculture and food industry, rural and regional development and spatial planning. It is also responsible for EU integration and co-operation with other ministries in these matters, thus most expected EU aid will go through this ministry⁹². It holds the presidency of the National Regional Development Council, which includes national level regional planning and co-ordination tasks. MARD controls the large majority of EU aid and also the bulk of domestic resources spent in rural areas: related to agriculture, rural or regional development. Within the ministry, there are a number of different units dealing with these subjects. However, their responsibilities sometimes overlap and their work is characterised by tensions and lack of cooperation.

The *Regional Development Unit* is responsible for regional development programmes, the administration of the Regional Development Fund and most of the background work that is required for the elaboration of the Preliminary National Development Plan⁹³ (PNDP), a document required by EU pre-accession programmes. After the change of the government in 1998, the main concern of the regional development bureaucracy was to 'keep its identity', resources and staff in the new institutional system, within the framework of a predominantly agricultural ministry⁹⁴. Their experiences, connections and developed institutions in the field of PHARE

⁹² Nevertheless, more and more responsibilities are taken over by the Prime Minister's Office, and even the establishment of a new, inter-sectoral department for the management of future EU aids is a potential possibility.

⁹³ This document is required for the participation in the PHARE 2000 + Programme. It is also supposed to be the basis for the future Objective 1 National Development Plan, after the accession.

⁹⁴ The official translation of MARD is *Ministry of Agriculture and Regional Development*; however, the Hungarian name is *Ministry of Agriculture and Rural Development*. The difference is a result of the personal effort and intervening of the leader of the Regional Development Unit with the Minister at the

administration were of great help in this. In fact, the experts and bureaucratic staff of this field could not easily be replaced. Within MARD, they had the best connections with the Unit for Economy, the Unit for European Integration and with a range of other ministries. For political reasons, officials of this field are reluctant to use the term 'rural development', they rather try to distance themselves and say that they do regional development, even if in rural areas. The main concern for them is the improvement of hard economic indices, like GDP, unemployment or physical infrastructure. Most previous EU funds (through PHARE) have come to this sector, and, according to the proposals, it is also likely to remain like that after accession. Therefore, people working in this area are rather pro-European, and they are also very knowledgeable about the EU system.

The *Unit for Rural Development Programmes* was set up in 1999. This unit was formally commissioned to organise the preparation of the national SAPARD Programme, and it has also been involved in a range of other activities, as well as in the emergence of the system of voluntary micro-regions (for details see Chapter 4). Today this unit is responsible for domestic rural development programmes (see 3.4.1. for details). Before the establishment of MARD, rural development was an important concern for both agricultural and regional development interests, since it was an area, promising great EU resources for the future. Moreover, rural development was first officially expressed in the framework of the regional development administration. Nevertheless, after the 'ultimate triumph of agriculture' in the struggle for future resources, practically both areas had lost their interest in a new type of rural development. The Unit for Rural Development Programmes has been considered as an 'alien body' within the ministry. The agricultural units are only interested in the agricultural restructuring component of rural development. Regional development units (the URDP is within this section), after realising that they could keep their integrity and resources within MARD, also lost interest in rural development. Personal conflicts between the leaders of URDP and the main regional development unit (until the recent change of the rural development state secretary) contributed to this situation. As a consequence, rural development, or rather the integrated approach,

time of the change. This was a way for regional development people to keep the 'identity' of the unit towards the outside world, namely to the EU.

is without a solid background in the state bureaucracy, it is rather limited to the small unit of URDP. (For a more detailed analysis of these issues see the next chapter.)

A central requirement of the rural development pre-accession programme (SAPARD) was the establishment of a central '*Paying and Implementing Agency*' with regional branches. After long debates (see Chapter 4. for details), it was established as a unit of the Ministry of Agriculture and Rural Development. Its task is to implement and administer the SAPARD Programme during the pre-accession period. Officially it is part of MARD, though it reports directly to the agricultural minister, therefore it is somewhat independent from the bureaucratic hierarchy of the Ministry. The Agency has been in place since 2000, though its status, director and strategy changed several times. After accession, the SAPARD Paying Agency is expected to become the basis for the national paying agency for aid coming under the CAP and the Structural Funds. This means that, most of the EU money, which will represent a large part of the budget for 'Hungary as a Member State', will go through this bureaucratic institution.

MARD has had a long-standing and well-developed system of *county level offices*, covering the entire country. These offices are manned by numerous permanent staff and experts and carry out the implementation of agricultural policies. In year 2000, seven regional centres were selected for the implementation of the SAPARD Programme – called Regional SAPARD Offices. The 'old county offices' of MARD in these centres were extended and additional staff was employed. The rural/regional division of MARD does not have such an advanced system of regional branches. However, in 2000 seven regional offices were set up (called Regional Rural Development Offices) to implement the 'SAPARD Micro-Regional Programme'. Each office has three rural development experts employed by MARD. They work alongside the regional development agencies⁹⁵ and the regional agricultural MARD offices. Additionally, agricultural ministries have had a long-standing academic

⁹⁵ These had been set up in various years in the different regions between 1998-2001. They provide the official background for the Regional Development Councils, and carry out the implementation of domestic and EU funded regional development programmes. For more details on this subject see Chapter 5.

background institution, the Agricultural Research Institute, which provides statistical data and analysis in the field of agricultural production, trade and rural policies.

The *Ministry of Environmental Protection (MEP)* is in charge of the overall strategy of environmental policy and legislation. However, for rural development matters it shares this responsibility with the concerning (agri-environmental department) of MARD. For officials, working in the government bureaucracy in the field of environment, the main concern is to convince their colleagues in other government units about the importance and significance of environmental protection as an EU requirement. To support this goal and to strengthen environmental protection as well as their own position within the Hungarian system they use rural development, environmental legislation and the rhetoric of the EU. In MARD, for example, there has been a great improvement during the last decade. Ten years ago agri-environmental protection was not even discussed. Today it has become 'fashionable'. The National Agri-environmental Programme is being implemented and the issue is (at least) mentioned in every relevant political document. Though, in some important sections of the institutional system, properly working mechanisms and practices are still missing for the co-operation of different interests to protect the environment⁹⁶. According to my interviews, for government officials working in the field of environment rural development is mainly equal to the agri-environmental measures of the CAP and other environmental legislation of the EU.

There are other ministerial departments that play significant role in rural policy-making. Possibly the most important one is the *Ministry of Economy*, which has overall responsibility for strategic planning. The *PHARE Minister without Portfolio* has an important role also, since the PHARE Programme provides a substantial proportion of rural and regional development resources. He is also charged with the drawing up of the PNDP. The *Treasury*, the *Ministry of Transport, Water and*

⁹⁶ An example based on an interview: When the first draft of the Preliminary National Development Plan was almost finished, just before it was sent to Brussels, someone from the National Environmental Council accidentally came across the plan and the whole procedure. Then he started to argue that such a plan has to go in front of the National Environmental Council. However, it was already too late for this process and, at least the first draft of the document went to Brussels without the approval of the Council. This did not happen because of the reluctance of the 'regional development people', but simply because "nobody thought of this before". With the words of an official from the RDU: "this is a learning process, next time it will go better".

Communication, the *Ministry of Social and Family Affairs* and the *Ministry of the Interior* all have their share of responsibilities and resources connected to rural development. The *Prime Minister's Office* has a certain degree of responsibility in every matter, but especially concerning the system of regions and statistical micro-regions (see next section).

3.4.3. Various levels of public administration

As a consequence of the 1996 Act on Regional Policy and Physical Planning, an entire system of regional development councils and offices was set up⁹⁷. This new institutional structure is not politically elected, but a multiform body in which various local actors are involved. All the councils at different levels contain representatives of the political sector (ministries, local governments), the economic sector (national or regional chambers), the employers and employee's organisations, local authorities and voluntary associations. The system theoretically is very advanced and democratic; however, there are many criticisms about its work in practice.

The weakest point of the system is the regional (NUTS II) level with 7 regions, which does not have traditions in Hungary and is advancing very slowly. There had been attempts to create a regional level prior to the start of the accession negotiations. However, the most important reason for creating the regions was the expected EU policies. This was intended to be a voluntary, bottom-up procedure, allowing the counties to form their own alliances. However, in some regions the counties could not reach an agreement in forming the regions. As a consequence, regional councils and agencies in some regions did not work well or were not even set up. After three years of squabbling, in 1999, the Act on Regional Development was modified and the regions were designated by law. Regional development agencies were also established to serve as background institutions for Regional Councils that would follow⁹⁸. At the

⁹⁷ The new institutional system at the different levels consists of the following:

National Regional Development Council (NRDC) and the Hungarian Regional Development Centre, which is practically the secretariat for NRDC; Regional Development Councils (RDC - there are 7 of these) and Regional Development Agencies as the councils' offices; County Development Councils and Agencies.

⁹⁸ Chapter 5 will explore the work of one of these regional councils in detail.

same time, the control of the central government on the system of different level development councils (especially the regional one) was tightened and practically became complete (Elek and Nemes 2001).

Most Regional Development Councils have little power. The reason for this can be found in the rootlessness of this level of administration, in the lack of sufficient institutions and resources, and also in weak representation and legitimacy. The members of the councils include representatives of 10 ministries, the presidents of the participating County Development Councils, one micro region from each county and the chairman of the Regional Tourism Committee⁹⁹. Regional Development Councils could be the forums of decentralised, regional level decision- and policy-making. However, at present sometimes they are rather the extensions of central government bureaucracy or the scene of the political struggle between participating counties.

The county level, with 19 counties, has long traditions in local policies and development in Hungary; however, with the changes of the 1990s it has lost most of its responsibilities, keeping only those tasks which the local authorities were not able or willing to do. Nevertheless, counties are still important institutions in rural development, as they are involved in regional planning and decision making, have the most decentralised resources for regional development at their disposal and have highly developed local connections and personal networks.

The district level, consisting of a town and its environs, is a special case in Hungary. It used to play the role of intermediary between settlement and county, however during state socialist time the number of these administrative units diminished (from 140 to 80) and in 1984 this level of state administration was abolished completely. Nevertheless, this level could be the most appropriate for rural and small-scale regional development activities and is of growing importance to EU policies. Under the new system two variations of the district-level have come back into being, though both are without administrative functions and are not called districts, but micro-regions. Firstly, there are 150 so-called *statistical micro-regions*. These were

⁹⁹ This constitution is the result of the last modification of the Act on Regional Development. Before that in the Council there were more micro-regions, less representatives from the government, and various Chambers were also represented. The whole system was more decentralised, however, it did not work, since some of the regions were not even set up.

designated by law (1996/XXI) according to objective criteria. Originally these micro-regions only served for statistical data collection, however subsequently they have increasingly become a framework for designation, channelling rural development funds and delivering state influence. Secondly, in parallel there are over 200 development associations - so-called *voluntary micro-regions* - often arising from public-utility organisations through a bottom-up process. These are greatly diverse associations of villages (in terms of size or population), engaging in rural development activities, strategic planning and infrastructural investments together. They were reinforced by the micro-regional level of the SAPARD programming procedure (see 4.2. for details). The two systems are overlapping, their boundaries often cross each other and certain villages can take part in several different ones, which create a complicated situation. The 1996 Regional Act did not establish any institutions at this level. Since then all sorts of management units and decision-making bodies have been established in both types of micro-regions. These institutions also contribute to the overlapping of spatial areas.

After the local government elections, 3142 new local authorities replaced the old socialist councils, and there was no legislation to force any kind of association (Horváth, 1998). For many small villages this brought back their lost independence. Since then, local authorities have become probably the most important actors for any sorts of development. Having an institutional system and resources at this 'very local' level can be a significant driver for rural development. The abilities and the work of a village mayor might have significant consequences for the development and future of the village. Especially in smaller settlements the local authority is often the largest employer and due to the lack of other official associations it is the only institution eligible for central development support. Voluntary village associations are also very important factors, since they provide a framework for institutions and integrated development programmes at a micro regional level.

3.4.4. Civil organisations and economic interests

After the political change there was a boom of NGOs and different civil organisations. In 1998, there were already more than 50 thousand officially recorded NGOs, many of

them connected to some aspects of local development (Hungarian Rural parliament, online: www.falunet.adatpark.hu).

From a rural development perspective, the most important ones are probably the *voluntary associations of villages* and their *local development agencies*. These were established during the 1990 to access EU and domestic development funds and today they cover the whole of rural Hungary (see 3.4.1. for details). Most of them have their own strategic and operational programmes, partnerships, local leaders and rural development managers. These associations are often based on the alliances of participating local authorities, but civil associations and NGOs also play a crucial role. They have been informed about the notion of integrated rural development by the LEADER programme, international rural and community development organisations (e.g. ECOVAST), domestic programmes of various EU countries (Scandinavia, Ireland, Spain, etc.), and the general rhetoric of the EU on rural development issues.

Some of these grassroots organisations have more than ten years of history, strong local and international networks, high knowledge of local and European issues regarding rural development and many successfully completed projects. However, many local associations do not work in this way and the best ones often depend on some exceptional, innovative and charismatic personalities living and working in rural areas. These associations have to compete with each other for limited development resources. This hinders the co-operation between them, which would be necessary to advance their ideas interests and representation. Nevertheless, due to their experience in accessing EU and domestic funds and in planning and implementation of local development projects and programmes often have significant influence. At the same time, they are represented in the regional and county development councils and therefore have some political influence on rural development issues. However, according to many critiques, this representation is rather weak, which is one of the drawbacks of the whole system. Another way for the NGOs to gain some political influence is through the *Hungarian Rural Parliament*. This was established in 1998 as an umbrella organisation for NGOs working in sustainable rural development. Today this association has more than 500 members, good connections with EU-wide

organisations (e.g. with the ECOVAST), and started to gain some political influence in the Hungarian rural development arena.

There are more than 200 *environmental NGOs* working on rural development issues. Although, environmentalism is not a mass movement (all NGOs together have approximately 10 thousand members), it is quite influential in national and local politics. There is a range of different organisations. Some of them, rooted in the political movements of the late 1980s, could be called 'the lobbyists'. In those days, environmental protection represented maybe the most important field through which dissenting opinion could be expressed and the socialist system could be challenged. Political lobbying still remains their most important activity. Their main aim is to influence new legislation, using their press connections and their position in public bodies (recent examples include the laws on environmental protection, gene technology, municipal waste, etc.). They also try to fight for topics of international significance. One of the main issues is the frequent and very serious pollution carried by my rivers from neighbouring countries. This is a problem typically requiring a political level solution.

Other groups are occupied with conservation work in a particular geographical area of outstanding natural values or in special fields of environmental protection (air pollution or municipal waste management). Smaller NGOs, deeply rooted in their immediate area, work for more direct aims, protecting natural values, creating gene banks or fighting against sources of pollution. Some of them entered into environmental friendly agriculture, or the light forms of tourism, creating the economic background for their activities. Their concern is often to develop every aspect of their small area in a holistic, sustainable way, which could be viewed as the practical application of rural development with a strong environmental emphasis. Within the environmental movement, according to some opinions, there is a strong emphasis on problems and issues connected to rural development.

The congress of Hungarian environmental NGOs is held once a year. It brings together all interested organisations and it chooses those 7 people, who represent environmental NGOs in the National Environmental Council. The Green Spider computer network, developed by non-governmental organisations, is one of the most efficient and effective forms of communication. Over 200 non-governmental

organisations are connected to the network, but the only governmental body so far linked to it is the Ministry of Environmental Protection. This network provides an excellent forum for the Ministry to announce and publish draft legislation, to seek observations and responses, and to offer tenders for funding applications.

Economic interests

The representation of agricultural producers is a complicated issue in Hungary. First of all, the Chamber of Agriculture is a statutory body, with compulsory membership; therefore, it cannot represent the economic interests of agricultural producers. Most of the large-scale agriculture is represented by the National Federation of Agricultural Co-operatives (NFAC). Their members hold approximately half of the cultivated area, and, together with the vertically integrated production, produce approximately 60-70% of the marketable agricultural products. The NFAC represents the interests of agricultural employers as well as agricultural producers. As an institution or through its members NFAC participates in all sorts of statutory and party committees and boards. They do a lot of direct lobbying of parliament, the government and different ministries, and also have good international connections. They have a well-developed institutional system with at least one office and permanent staff in every county.

The representation of small producers is a much more difficult issue. There are a number of organisations, standing up for the rights of family farms and small enterprises. The most influential one is the National Association of Hungarian Farmers' Societies and Co-operatives (NAHFSC). They claim that their primary task is to represent the interests of private farmers including small and medium size farms and new type supply, marketing and service co-operatives established and managed by these farmers. Practically it is an umbrella organisation, having 830 local farmers' unions as members, which represent 43 thousand farmers altogether. They provide their members with practical help, information and expertise. The other field of their activities is political lobbying for the interests of family farms. Beside the NAHFSC, there is a range of other organisations claiming to represent the interests of family farms of different types or from different areas. The memberships, aims, resources and achievements of these organisations vary greatly, therefore significant tensions

can be identified and there is no institutionalised system for co-operation or for reaching consensus in important questions between them.

3.5. Rural values and resources for integrated development

Above some important aspects of Hungarian rurality were explored, with special regard to those circumstances and trends that are likely to influence integrated rural development. Agriculture, as the most important rural industry was also analysed from this point of view. The following will explore what rural values could be reconfigured and utilised for integrated rural development in Hungary (see 2.1.6. for theoretical details).

3.5.1. Ecological values - a basis for rural development in Hungary

According to environmental experts, the most important asset that Hungary can offer to the EU is in its outstanding natural values, flora, fauna and landscapes (Nagy, Márkus, Ángyán 2002; Podmaniczky, Balázs, Szabó 2001). In the current EU15, intensive modification of natural systems resulted in the drastic reduction of biodiversity. CEE countries, in which these negative effects are not so advanced, can enrich the EU with an abundance of natural values. Hungary has a large number of indigenous species that are not native in Western Europe, containing approximately 42 thousand animal and 2200 higher plant species, native to Hungary. A lot of these natural values are connected to the unique open grasslands of the Great Hungarian Plain and other plains of the country. The main wildlife habitats outside protected areas are mainly in agricultural lands, therefore promoting environmentally responsible farming practices that consider natural production conditions are of importance to safeguard the diversity of these natural values (Podmaniczky – Balázs – Szabó, 2001).

It is predicted that the cultivation of approximately 1-1.5 million ha of poor quality arable land, some 11-16 % of the total area of the country, is likely to be discontinued

during the next few years¹⁰⁰ (Institute of Environmental Management 2002, Ángyán 2000). Since the flood-control and water regulatory projects of Hungary dating back to the 19th century, this will be the largest change in the land-use and the landscape of the country. What happens with these large areas is vital for the country's nature and whole ecosystem and has to be taken into consideration for rural development. Another issue is that, a lot of Hungary's environmental rules (for example, concerning the use of wetlands) are much stricter than EU rules in the same areas (Szabó 1998/b). These rules should be kept when gaining membership, for the protection of natural habitats. Hungary has a range of landscapes and natural elements, which are to become common values of the Union, and can also become a primary resource for sustainable rural development (if preserved for the future).

Organic production has been heralded as having great potential for Hungarian producers, safeguarding environmental resources and penetrating European markets at the same time. Some elements of an organic production system already exist; others are under development. While at the beginning of the last decade organic farming occupied only a couple of thousand hectares in Hungary, today it covers over 40,000 ha and is growing rapidly. The legal system and institutions ensuring the quality of the products are in place. Some 98% of the organic products go for export at a very good price. There are a wide range of products, from wheat to fresh fruit, vegetables and wine, meat and milk products. The qualification of the products is the responsibility of an environmental NGO (Bio-culture Association). At present there are no incentives for, or funds for short-term opportunity costs of, switching to organic production as the subsidy only covers 40% of extra expenses (e.g. the test of soil, quality of products, and consultations). For the next few years, if the necessary support is available, the area of organic production is forecast to reach over half a million hectares, which would represent a significant proportion of the agricultural land area. However, in itself it cannot be a panacea for Hungarian agriculture as a whole. Different areas have different problems, requiring different solutions (<http://www.organic-europe.net/>).

¹⁰⁰ During socialism large areas of bad quality land were cultivated with state subsidies, just to provide employment or for other political reasons. Much of this land cannot be cultivated profitably and is likely to become abandoned in the foreseeable future.

Threats to biodiversity

Until the late 1980s, Hungarian agriculture was heavily polluting, as a result of high usage of artificial fertilisers and other chemicals. However, since then the lack of capital, reduction of financial support and state aid and the consequent reduction of production levels contributed to a fall in the number of environmentally unfriendly investments. The usage of artificial fertilisers shrank to a quarter of its previous level and now it is well below the world average. As a result, Hungarian agriculture, at least concerning water pollution, is one of the 'cleanest ones' in Europe (Szabó 2001, Márkus, Nagy, 1997).

Table 6. Change of artificial fertilisers used (active agent kg/ha)

	1987	1990	1995	1997	1998
World average	95	93	86	91	91
Hungary	260	127	49	57	65
Austria	221	196	157	171	170
Denmark	233	248	188	184	170
Poland	222	104	104	111	114
UK	355	364	367	353	330
Romania	130	107	37	32	37
US	94	97	112	113	110

Source: AKII, KSH, in Csite 2003

Nevertheless, the most severe environmental problems arise from water pollution in Hungary. Some 95% of surface water comes from outside of the country. There are frequent problems of severe cyanide and heavy metal pollution, coming first of all from Romania and sometimes from Ukraine, from mines and industrial plants¹⁰¹. Some 80% of domestic pollution of surface waters comes from municipal sewage. The reason for this is that 40% of the municipal sewage flows untreated into the rivers. The second largest polluter is manufacturing, with 19% of the pollutant

¹⁰¹ Online and frequently updated data on the current state of Hungarian environment is available on the homepage of the Hungarian Ministry of Environment and Water Management <www.kom.hu> and on the 'green spider network' <www.zoldpok.hu> (nationwide network of environmental NGOs). Environmental data in this section – where not otherwise stated – is from the homepage of the Ministry, accessed March-April 2003.

pressure on the rivers. Agriculture is only being responsible for 0.5% of total pollution. The treatment of municipal sewage has to be solved as an EU requirement. The EU, through the ISPA (the Structural Pre-accession Instrument) offered some resources for this (Commission 2002/1). However, this money can only be spent on large sewage treatment plants, which is disadvantageous for rural areas with scattered settlement system for environmental as well as for economic reasons¹⁰². From a sustainable rural development perspective, the building of small local plants, preferably using environmental friendly technology, would be much more advantageous and also far cheaper.

The last few years have brought the greatest floods on the large rivers of Hungary in living memory. Cities, villages, millions of people and millions of hectares of agricultural land were threatened, and traditional ways of flood-control seemed to be insufficient to solve the problems, especially on the Great Hungarian Plain, alongside the Tisza river. Possible remedies can have serious consequences for the environment. Two different philosophies of flood-control meet here. The first – the ‘Vásárhelyi Plan’ - is an ‘industrial’ one (KVM 2002). The main aim is to protect the largest possible area, providing safe land for intensive agricultural production. In order to achieve this, 15 high capacity reservoirs would be created, which would require a large amount of earthwork, seriously damaging the local environment. The other danger derives from the expected water-level in the reservoir. If the water rises too high from time to time - which would be the case according to this approach - it could destroy most of the natural environment completely. The realisation of this plan could mean the loss of rich and diverse natural values, already protected by domestic and international agreements (RAMSAR Convention, for example).

The other approach to flood-control has a more ‘environmental’ focus (BNPI 2002, and <http://ma.hu/page/cikk/ad/0/60889/1>). This would mean the creation of many small capacity reservoirs, requiring much less earthwork altogether, and predicting a much lower water level at the time of floods. This basically would mean giving back to the river some of its flood-plain, and the return to more traditional agriculture (‘foki

¹⁰² If these areas want to participate in these programmes, apart from the treatment plants, large networks of sewage pipes also have to be built, which is not only time consuming and costly, but can also cause serious environmental damages. For details of this debate see the ‘green spider network’.

cultivation') on these territories. This would greatly benefit the environment, extending wetland areas¹⁰³ and creating buffer zones for currently high natural value areas. It would also mean the loss of significant areas of intensive agricultural land. Much of this land is poor quality, and if not already abandoned is likely to become so in the near future.

Beside municipal sewage, *municipal waste* is the other large unsolved problem in Hungary. The proportion of solid waste has increased considerably during recent decades. Only 30 % of the 2700 communal landfill sites more or less meet the environmental standards (Szabó 2001). According to estimates the capacity of existing landfills is suitable for some 5 years. Especially in rural areas a lot of the rubbish is simply taken and thrown away in forests, rivers or open fields. This can reduce the attractiveness of the countryside and constrains rural tourism and rural development possibilities in general.

Another unsolved problem is getting rid of carcasses, especially from the small-scale family farms. The former system that used to solve this problem disappeared with the state-run co-operatives. Its successor is very expensive and not very effective. Therefore a lot of dead animals arrive at landfill sites, rivers in the forest again, causing not only aesthetic and environmental, but also public health problems. Some problems connected to abandoned industrial and mining activities, and former polluting and toxic waste producing areas are still not resolved. An additional problem is that these areas are often amongst the most poor and backward ones, accumulating different types of disadvantages. There are also 300 surface mines; their rehabilitation still remains unresolved. These problems carry significant constraints for the sustainable rural development of the areas concerned.

Summing up this section it could be stated that, in Hungary, ecological values are crucially important in creating a basis for integrated rural development. This especially concerns less favoured areas, where the economic potential is generally low and intensive agricultural production is not competitive. In these areas, agri-environmental policies, LFA and ESA payments in parallel with agro- and eco-

¹⁰³ According to this approach, significant areas of current agricultural land should be purchased by the state.

tourism and other environmental friendly rural development activities could provide decent livelihoods for much of the population. This is in line with ongoing EU initiatives and with the direction changes, proposed for the Common Agricultural Policy. The transformation of Hungarian agriculture and rural economy during the last 15 years, also strongly supports such a direction for future development.

Nevertheless, to utilise, or even to maintain potential ecological resources, effective policies and significant financial resources are urgently needed. Currently, nature conservation is usually considered an obstacle to rural economic development, rather than a resource. The level of knowledge about environmental values and their possible contribution to rural economic development is generally very low. Sufficient institutions, working policies, educational programmes are either missing or have only recently been launched in this field. To increase the level of knowledge a lot of work, experience, information is needed, and both, sufficient domestic and EU funds are necessary to invest.

3.5.2. Heritage, traditions, culture and society

In Hungary, similarly to other European countries, rural cultural traditions did not used to be fairly valued or cared about for many years (for details see 2.1.6.). They were often considered as a sign of backwardness or underdevelopment and had been disappearing for decades. In Hungarian, the word 'peasant' has a derogatory meaning. Much of Hungarian rurality has been isolated from urban development for decades. In many poor, remote villages it was even forbidden to build new houses, or refurbish old ones. Traditional peasant culture, religion and social networks, at the same time, provided some self-protection against the socio-political and economic colonization of rural areas during state-socialism. As a result, a rich and unique heritage has been maintained including folkloristic traditions; built environment; monuments; folk art; cultural landscapes and village appearances; special production methods and special ways of life in a number of rural locations.

In recent years, opinion on rural values has changed significantly, and a 'Hungarian rural renaissance' could be encountered. In parallel with biodiversity and other

ecological values (see above), cultural heritage, the built environment and other aspects of rural life has become highly valued and protected. Concerning the built environment, some 10,400 nationally protected monuments are on record, and local governments tend to provide protection for more and more values in their own built environment. The State of Hungary provides special protection for 263 art monuments; these shall remain the property of the state. The number of ecclesiastical monuments is also significant. These shall not be sold or disposed of in any way. UNESCO has designated several sites located in cities as well as in the countryside as World Heritage sites. In many rural areas cultural heritage, consisting of local customs, cuisine, specific products, arts and crafts, sometimes even music and dance, is still very rich, representing a continuous tradition. In other areas these values have been rediscovered or even recreated, often by urban immigrants or those wanting to participate in the growing rural tourism business.

These values can greatly reinforce local identity and the integration of local or/and national communities, enriching European cultural heritage as a whole. Culture and social networks can be seen as the glue, holding together the fabric of everyday life and society. They can reduce out-migration, attract new dwellers and sustainable tourism, therefore, they are crucial resources for integrated rural development¹⁰⁴.

3.5.3. Possibilities for sustainable tourism

Tourism is the fastest growing industry worldwide. There are countries in Europe, richer than Hungary, where tourism is the single largest source of income, both for individuals and the state. Hungary has good potential in this business. Over twenty million tourists visit the country each year, which makes it the eighth most visited country in Europe. Hungary in this regard is ahead of countries like Austria, Switzerland and the Netherlands. The picture is much less favourable considering the nights stayed or the money spent here by tourists. The situation is even worse in backward rural areas of the country. Tourism activities show strong regional and territorial disparities. Most of the 'tourist nights' are spent in Budapest and a few other

¹⁰⁴ For positive western European examples see the literature on 'cultural economy' and 2.1.4. in this study.

traditional destinations, such as Lake Balaton, Danube Bend, Hortobágy, some historic cities and the area of the Austrian border. In these areas the tourism sector provides a good income for a significant part of the population. However, this would be impossible without accessibility, good marketing, appropriate infrastructure, services and a culture of 'commercial hospitality'. Backward rural areas usually have none of these.

Therefore, in Hungary most rural areas are not benefiting from tourism, which might be considered as a panacea for rural development and multifunctional agriculture in some Western European Countries. To change this situation significant developments are needed. In most rural areas the standards of catering; marketing activity; the development stage of rural infrastructure and the effective operation of local and national networks are not sufficient and should be considerably improved. There are some entrepreneurs in backward areas making large profit in the tourism business, building on the natural or cultural heritage of the locality. However, they are exceptions, usually immigrants, having experiences and connections in cities. Indigenous people would need training, strong financial and technical support to succeed in this business. Another limiting factor is that the domestic market for sustainable rural tourism today is very small. Most customers are foreign. Therefore the market is highly vulnerable to international economic and political circumstances (terrorism, wars, food and health scares, etc.). As another limiting factor - apart from some special regions of German minority population - Hungarian rural people hardly speak foreign languages. Cultural differences and problematic communication can therefore further restrict their participation in the tourism business.

Nevertheless, beyond these and some other obstacles, rural tourism could provide a very significant source of income for many rural areas in Hungary. Sustainable tourism, in which Hungary has good resources, could certainly widen the possibilities for rural development. In addition to aforementioned examples, some more options should follow here:

Hungary has unparalleled thermal water reserves in Europe. Compared to the high potentials, however, the degree of utilisation is nearly negligible. Besides existing attempts to harness these resources for (largely poor standard) health tourism, natural hot water springs could represent a significant attraction for tourism in general.

Hungary has a lot of rivers and lakes, surrounded by beautiful nature, well suited for water sports and recreation. Few countries have such an extensive network of potential bike trails running through the natural landscape, as does Hungary. The 4,200 km of dikes running alongside the river network can be considered an ideal system of bike routes. Foreign visitors, interested in nature and the peculiarities of the Hungarian landscape mostly visit those backward rural areas of the country that are most likely to be affected by EU accession. The continuation of extensive land-use practices would help retain the declining rural population, while it could contribute to the preservation of the current landscape and the associated natural values. Soft tourism based on these values could generate the extra income needed for the maintenance of the system. With finding the right proportions of the various activities, the landscape and natural heritage can be preserved and tourism can flourish. There are several good examples for this in Europe. In the future, rural development policies should focus on the utilisation of these potentials, and all planned projects should be evaluated from the aspect of their impact on rural tourism.

3.5.4. Community values - social structure, civil society

There is another group of circumstances that influences the possibilities for sustainable rural development in the Hungarian countryside, the existence and/or the lack of certain kinds of *community values*.

After all the changes and transformations, rural society in Hungary is still much closer to a traditional peasant stage, than in most areas of Western Europe. It is less individualistic and more community based. Networks of family and friendship are still of great importance, connected to economic activities and to most other aspects of everyday life. This is the consequence of economic necessity, traditions and custom, but also the restrictions of the socialist times. The work of almost all civil society organisations was forbidden during the 40 years of socialist rule. In a centrally organised and planned socialist country, officially there was not much space for subsidiarity, self governance or local initiatives. Nevertheless, the state could never manage to control every aspect of civil life in rural areas; directives and central regulations were often resisted or modified during their implementation. Life would have been simply impossible if all central regulations and directives had been

complied with. Therefore, various self-defence mechanisms were developed by individual localities and rural society as a whole. These mechanisms were mainly based on personal connections and features of traditional life. This process was contingent and did not work all the time, though it helped to keep alive the spirit of localism and a certain type of partnership within local society. Seven years after the liberalisation of political and civil life the number of non-profit civil organisations already reached the level of pre-socialist times. In 1997 there were more than 50 thousand working NGOs in Hungary. The number of these has been continuously growing ever since, and many of these organisations are involved in rural development activities¹⁰⁵.

The viability of civil society and the high level of community values in some rural areas suggest a great potential for endogenous, integrated rural development. Nevertheless, there are geographic regions and certain areas of economic and social life where most community values were lost and political and social tensions or just a general lack of concern and willingness to co-operate significantly hinder any type of local development. Some of these problems are rooted in the past. Local authorities of former centre and satellite villages often cannot get on well. Another source of conflicts is the tension between former local (socialist) political elites (many of whom have become economic elites by now) and the new social, political elites. Another problem is that, for historical reasons (see 3.2.1.) the term 'co-operative' and the notion of co-operation have been debased. Peasants were happy to get back their land and independence in the 1990s from socialist co-operatives. Today, as a result of both bad memories and a lack of trust and motivation amongst producers, it is extremely difficult to organise new type of co-operatives in the Hungarian agricultural sector. This is in spite of supportive state policies and clear economic rationality.

In some areas the erosion of human resources and community values reached a level which left hardly any chance for integrated rural development. Some villages have simply died out, or have been left with only very elderly populations. Many of these

¹⁰⁵ Many NGOs work in the field of culture and community life, others in environmental protection (see 3.4.4.). Almost every rural school has some sort of association to organise cultural events, excursions and other activities. Other NGOs are specialised for the protection of cultural heritage or for the development of the built environment. Nevertheless, there are many rural NGOs, specialised directly for development activities, for the production of high value products or/and for their marketing.

places have been rediscovered recently; and houses have been bought and refurbished by mainly urban people¹⁰⁶. This could be considered as new start for development. Nevertheless, as the continuity of life and culture was usually broken and resources, problems and objectives are very different from usual villages. These cases should be considered to be special and in need of a unique approach from the viewpoint of integrated rural development. Other remote villages rather changed than simply lost their community values. In disadvantaged areas a number of settlements have only or almost exclusively gipsy population today (for reasons see 3.3.4.). These villages are often in very disadvantaged situation, having weak infrastructure, crumbling houses and young but uneducated, unemployed, poor population. Social networks and kinship relations are often very strong in these communities, however, as a result of low human resources, the lack of money and entrepreneurial culture, community values are difficult to be institutionalised and/or utilised for rural development.

Other problems originate from current socio-economic processes. As mentioned above, tensions between newcomers and indigenous population often cause problems and can easily undermine community resources. If the means of production (land, buildings, etc.) are bought up by preservationist newcomers or other external investors, that can stop local economic development as a whole. Also, as a result of a combination of factors - the commercialisation of economy and society; the economic and social crisis in rural areas; and the erosion of traditional culture (through the television, for example) - traditional forms of informal networks and partnerships are disappearing.

Another problem, in connection with EU membership, is the low level of institutionalisation of the local development system. Only localities with effective legal institutions and a good understanding of the EU bureaucratic system will be able to access EU funds for rural development. Currently much of this is missing in most Hungarian rural areas. Development associations, NGOs, local authorities and entrepreneurs are unprepared for EU requirements. They often do not have established

¹⁰⁶ Gyűrűfü in the southwest of the country could be mentioned as an extreme example. This village completely disappeared in the early '80s. The forest regained the territory, leaving only the cemetery, the walnut trees and some wells as mementos. However, in the early 1990s some environmentalists bought up the valley of the former village and established a new village and a new community, established on the principles of environmentally friendly agriculture and living altogether.

legal partnerships with legitimate bodies and transparent decision making mechanisms. In other words, to access EU aid, community resources (social networks, mutual trust, etc.) should be institutionalised and put on a formal legal footing. Otherwise there will be serious difficulties in channelling EU aid for rural development in the future, which may prevent areas in need from receiving essential resources.

3.6. Agriculture and/or rural development – two scenarios

In Hungary, there are two different types of agriculture in existence beside each other (for a detailed account see 3.2.). The first could be called 'market oriented agriculture'. This consists of mainly large, intensive, commercial farms (the successors of old co-operatives, state farms and some 60 thousand new private businesses) cultivating typically rented land with improved machinery. They hold some 65-70% of the land area and offer the vast majority of marketable products produced in Hungary, providing the supply for export and domestic consumption. This part of agriculture can be competitive on EU and world markets, especially in some products, such as grain, fruit, vegetables and some industrial plants. The other agriculture is a small scale one. It consists of approximately 1 million small plots, using less than a hectare each (altogether 16.8% of the cultivated area). These mini farms produce mainly for subsistence and income supplement, using little or no machinery. Most of their products do not even appear in statistics or the taxation system, as they are for self-consumption or sold informally to neighbours, friends or at the local market. However, for many families, especially in rural areas, this traditional agricultural activity is essential, sometimes the only means of survival. One could see that, 'both agricultures' are equally important, although for different reasons. Both of them are likely to be influenced by EU accession, and need different types of policies. As it is argued, commercial agriculture is likely to benefit from EU membership, but the small scale, income support farming, on the contrary, is likely to be threatened by it.

For officials, interest groups and for most of the producers in this field, rural development essentially means agriculture or agricultural restructuring. This sector is largely preoccupied with issues of EU accession therefore, the views of DG Agriculture, mediated by the pre-accession programmes and in a number of other

ways, have a rather strong influence. However, the two different types of agriculture (the market oriented and the subsistent, or large and small producers) have rather different interests in a range of issues. In general, much of the large-scale, intensive, market oriented farming has a strong interest in urging the application of EU regulations and the accession itself, without a transition period or significant derogations for agriculture. They are also interested in increasing and intensifying production, to reach better quotas and a better market position at the time of accession. Small scale and subsistence farming is rather threatened by EU accession. The strengthening competition, the compliance with certain EU rules (on environment, animal health and welfare, accounting, marketing, etc.) and the loss of some domestic allowances on taxation and administration can endanger a lot of small businesses (in agriculture and food-processing) and the livelihoods of many subsistent farmers, currently receiving some additional income from agriculture. These differences highlight a range of different interests between the two types of producers, and the question of who represents the agricultural lobby in Hungary is somewhat unresolved today.

However, there are some general problems about the future. The probable intensification of agriculture will result in further increases in agricultural and rural unemployment. General lack of capital, business and marketing services, low efficiency, poor quality and the low level of domestic consumption can seriously damage the competitiveness of Hungarian agriculture in a EU framework. Also, the fact that CEEC's agriculture will only receive significantly reduced direct payments compared to western producers is likely to have serious consequences for the competitiveness of Hungarian agriculture. The present, very fragmented land-ownership system, the lack of an adequate land register and agrarian information system, the low level of rural infrastructure and new type of co-operation are also serious deficiencies for the whole Hungarian agriculture and rural development sector.

The approaching EU membership, the CAP, the new potential markets and large resources for investment and intensification is likely to bring significant changes again for Hungarian agriculture. Concerning this, an important strategic choice has to be made by Hungarian policy makers, between the reality and the rhetoric of EU policies. In other words, they have to decide if they want to base rural and agricultural

policies on the principles of the present Common Agricultural Policy (CAP), or rather on the principles of the Common Agricultural and Rural Policies for Europe (CARPE), which is widely referenced as the possible way out from the rural-agricultural crisis of the EU in the near future. Hungary has good resources for both choices; however, they are likely to bring very different consequences for the rural areas of the country.

The first choice (could be called the 'CAP scenario') would involve the significant and large-scale intensification of Hungarian agriculture, built on domestic and EU resources. From this viewpoint the last ten years have been a wasted time; the extensification of production and the structural change of land ownership towards smallholdings is a disaster. This approach suggests the same path for the Hungarian agriculture that has been followed by its French, Danish or Dutch counterparts. This means the reinforcement of monocultures, cultivated mostly in vertical integration with a very high input of fossil energy, which produce significant profit, however, only if agricultural subsidies and direct payments are provided. This 'development' would cause though the same or very similar level of environmental destruction experienced in Western countries and result in further significant fall in agricultural employment, due to intensification and improved machinery. All this would be started in a political environment, in which longer-term rational considerations, external and internal forces, proposals for the future, even the rhetoric of EU policies suggest the close end of these policy directions. Two more issues should be considered. First, high input production can only be profitable in a supportive policy framework. In all probability, Hungary and the CEE agriculture in general, will not receive the high agricultural subsidies of CAP, for a long time. This would place considerable burden on the EU budget, and would be against the interests of influential agricultural lobbies of the Union. Second, if Hungary tries to go on the same way as Western agriculture, starting with several decades of drawback in development and capital investment, then it is likely to be lagging behind for a long time, with little hope for being able to catch up with the system. This scenario cannot be considered sustainable in any way. It would cause environmental damage, reinforce rural problems, such as unemployment, depopulation, and degradation of social and cultural values. Moreover, it is also likely to be a dead end road from an economic point of view, at least for the local economy.

The second choice - could be called the 'CARPE scenario' (see 1.2.6.) - would go to a radically different direction, aiming at a 'post-modern', sustainable agricultural and rural policy. This would support organic and low-input farming on significant areas, producing high quality, healthy food, and industrial crops for bio-fuel, for example. In this way, a certain degree of our backwardness can be turned into advantages (because in some areas there is a relatively extensive agriculture, which is easier to be converted into organic production, for example). This type of production sets high values on human work and does not jeopardise rural jobs. It lives in a symbiotic relationship with its environment, preserving natural resources and treasures for the future. Of course, financial assistance is also needed in this case; however, it is not an aid, but a payment for preserving environment, landscape and culture on a sustainable way, for the good of the whole society. This alternative agriculture should be interconnected with other means of sustainable rural development. In this way, Hungarian agriculture and rurality would go on to an alternative way, compared to Western Europe. It could miss out a period, which has caused many environmental, social and economic problems in the West. Like this, Hungary would not be lagging follower any more, but could become a leading force for rural development, for the benefit of the whole of Europe. This scenario, if realised with adequate care and precaution, can prove to be sustainable from the viewpoint of the environment as well as local culture and society.

CHAPTER 4.
OFFICIAL AND ‘SIDE EFFECTS’ OF THE SAPARD
PROGRAMME

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RURAL DEVELOPMENT AND PRE-ACCESSION PREPARATION
IN HUNGARY

The task of this chapter is to give an analysis of the implementation and effects of the EU's rural development pre-accession instrument SAPARD in Hungary. Since the programme has just started and very limited EU resources have been channelled so far, strictly speaking, SAPARD has had hardly any direct, practical effects on Hungarian rurality. Notable effects are limited to some legislation and a small segment of Hungarian public administration, most importantly to the establishment of a Paying and Implementing Agency, complying with EU requirements. These effects – they could be called ‘official effects’ - originate from the *acquis communautaire* and they are the results of hard, coercive policy transfer (see Chapter 1.). They were required by the EU and have been closely overseen by the European Commission. On the other hand, the preparatory work for SAPARD and EU accession in general, resulted in many changes and developments in Hungarian rurality. They can be observed in the physical environment, various levels of administration, the participation of civil society, the recent boom of local development activities and the perception of rurality and rural problems in general. These effects – they could be called ‘side effects’ - largely originate from the EU rhetoric on sustainable and endogenous development, and they can be considered soft policy transfer or social learning (see the first chapter of this thesis). However, they were not specifically intended by the EU pre-accession policies and have rather been counteracted than helped or encouraged by the European Commission. Taking a simple approach for this study would mean analysing only the ‘official effects’ of SAPARD. Though, to be able to give a comprehensive and clear picture of the effects of the pre-accession procedure on Hungarian rurality, I take a more complicated approach, exploring and analysing ‘official effects’ and ‘side effects’ in parallel.

The first section will examine some of the background and the context of pre-accession preparation; the drawing up of the Hungarian SAPARD Plan and its lower

level counterparts, and place SAPARD in the Hungarian rural development structure. The emerging conflicts and official- and side effects of the planning procedure are also shown. The second section evaluates the Hungarian SAPARD Plan itself, with special regard to its more recent modifications. The third section will examine implementation and institution building focusing on the difficulties of setting up the SAPARD Agency. The fourth section offers a qualitative evaluation of the pre-accession rural development process in Hungary, drawing on the content of the previous chapters.

4.1. The 'official SAPARD Programme' in the Hungarian rural development system

For Hungary, the maximum amount of SAPARD aid cannot exceed Euro 38 million (approx. HUF 10 billion) annually (at 1999 prices)¹⁰⁷. In various comparisons, this appears to be a relatively small amount. Compared to other pre-accession programmes, SAPARD accounts for approximately 17% of the annual pre-accession aid. It amounts to less than half the value of each of the other two main pre-accession instruments, ISPA¹⁰⁸ and PHARE. Therefore, at least in financial terms, there is not a dominant emphasis on agriculture and rural development in the pre-accession strategy for Hungary. Comparing SAPARD to earlier EU aid shows that there has not been a significant increase in the resources provided for rural development. The annual SAPARD budget is some 30% of the 1990-1994 annual PHARE budget, for example. Concerning domestic policies, SAPARD amounts to some 4.5% of the overall annual budget of MARD (in 2002), which includes funds for agricultural production in addition to regional and rural development. The aggregate budget of the three domestic funds designated to help backward rural areas amounts to more than three times the maximum annual budget available through SAPARD. Similarly, the experimental Hungarian Agri-Environmental Programme (launched in 2002) in itself had almost a quarter of the budget of the whole SAPARD programme. Consequently

¹⁰⁷ This amount is only in case of full spending, providing that during implementation Hungary can fulfil all the requirements. This rarely happens with EU programmes, even in experienced Member States.

¹⁰⁸ Instrument for Structural Pre-accession Aid

SAPARD, even if it were implemented, would not carry significant financial resources for Hungarian rural development.

Concerning the institutional and implementation system, however, SAPARD is significantly different from previous programmes and from the other pre-accession programmes (ISPA and PHARE). It uses the concept of decentralisation of management, whereby financial resources have to be administered domestically - instead of the EU level. For this, a paying agency, complying with EAGGF Guarantee rules, had to be established in Hungary. SAPARD differs from former domestic programmes in its complexity. Although it does not bring completely new objectives into the policy arena, it manages various sectors (agricultural, rural development and agri-environmental measures, for example) in a common framework of programming and implementation. In the domestic arena, different sectors have separate programmes managed by different departments or units.

4.1.1. Drawing up the SAPARD plan – the ‘official’ programme

The Hungarian government was first informed about the SAPARD Programme by the EU in early 1998. In that spring the country had general elections and changed the government. Under the new government led by the Young Democrats Association (FIDESZ) and the Independent Smallholders Party (FKGP), the Ministry of Agriculture incorporated the former Regional Development Department and became the Ministry of Agriculture and Rural Development (MARD) (see 3.4.2.). The first attempt to prepare for the SAPARD, or rather to get appropriate information about it, the leader of rural development of DG Agri (DG VI at that time) was invited to Budapest for a conference on SAPARD in July 1998. Here, besides government officials and local authority leaders a number of NGOs also participated, and a large amount of interest was stimulated in the pre-accession rural development programme. Nevertheless, as a result of the reorganisation of the Ministry, preparation was stopped completely for half a year.

In December 1998, the Rural Development Unit (RDU) was set up within MARD. Its first task was to co-ordinate the writing of the National SAPARD Plan (NSP). The commission to do the work was given to an independent research institute VÁTI (the

Urban Planning Institute), where a small unit was set up to fulfil this task in March 1999. With the contribution of experts from various universities and research institutes a first draft was delivered within four months. At this stage the programme writers somewhat misunderstood the message of the EU. The final SAPARD Regulation and other documents on implementation were not yet in existence. There were ambiguities and open questions even about Agenda 2000, the new direction of EU rural policies and the 'depth' of the CAP reform (as explored in Chapter 1.). Also, rhetoric on sustainability and integrated development was being reinforced by official EU declarations and other non-governmental sources. Hungarian officials, working for the Rural Development Unit of MARD, responded to this situation and decided to take a 'shortcut' and intended to build a rural development system in Hungary, based on the 'new paradigm' rather than modernisation and/or agricultural restructuring.

Therefore, they started to prepare the National SAPARD Plan (NSP) according to the LEADER approach. In the Hungarian context, and the given framework of SAPARD, it meant the concentration on rural diversification, local participation and environmental friendly production. Consequently, the first draft of the Plan essentially focused on 'Article 33 type' measures¹⁰⁹ and intended to further decentralise EU resources to the regional level. The Plan was based on experts' knowledge and the first results of an earlier, county- and regional level programming procedure¹¹⁰. Through the latter, economic interest groups, local authorities, credit unions and some NGOs could have some indirect effects on the content of the Plan. However, the lack of time strongly limited this possibility.

¹⁰⁹ In the Hungarian plan these are: Economic diversification, rural infrastructure, vocational training and the renewal of villages. In the following I refer to these as 'rural development measures', to differentiate them from the 'agricultural measures', which are: agricultural investment, marketing and processing industry and support for producers' groups.

¹¹⁰ In late 1998, MARD launched a planning programme, providing EURO 24,000 to each of the 19 counties and the 7 regions, as a support to write their rural development programmes. Theoretically it was an open bid, where consortiums of research institutes, local authorities and financial companies could compete for the commission. However, as the advertisement for the bid was published on a Friday, with the deadline set for the next Thursday, clearly, the commissions were decided by the Ministry, rather than the competition. The quality of programming was quite diverse. Though, in the case of some regions and counties (e.g. South-Transdanubia) it was based on wide consultation with economic and social partners and NGOs and finally provided valuable information for the National SAPARD Plan.

This first draft was heavily criticised by various interests. The ‘agricultural lobby’ pressed for the available resources to be directed at the restructuring and modernisation of the agricultural sector. The Economic Department¹¹¹ of MARD, opposing the RDU, commissioned another research institute, the Agricultural Research and Information Institute (ARII), to write an alternative NSP. The new plan heavily focused on agricultural restructuring, and dismissed ‘rural development measures’ completely. It intended to run the programme from the centre, using the traditional county level institutional system of MARD. The Plan was criticised, amongst others for being too centralised; simply channelling EU resources into domestic schemes; and for favouring large and competitive agricultural businesses and co-operatives to small producers in need.

After several months of internal lobbying and bargaining a compromise was reached in December 1999 (Government Decree of 2349/1999). The Plan was finally divided into two parts and included both the proposed agricultural and rural development measures, with somewhat differing institutional systems. Agricultural measures became the responsibility of the relevant ‘traditional units’ of MARD¹¹², while rural development measures remained with the Rural Development Unit. Agricultural measures were supposed to be implemented through the network of County Offices of MARD, while rural development measures were to be administered on regional level, through the seven recently established Regional Rural Development Offices (see 3.4.2. and 4.4.2.). Apart from defining objectives and institutional competence, there was debate on the allocation of the SAPARD budget amongst the various measures. Originally Hungary expected to receive at least Euros 50-60 million from the SAPARD budget annually. Nevertheless, according to the final allocation of the EU, the country only became entitled for Euros 38 million annually¹¹³. This news was a

¹¹¹ Within MARD this unit deals with production subsidies and with the financial side of strategic planning.

¹¹² Investments in agricultural holdings – Economic Department; Improvement of vocational training – Educational Department; Improvement of the processing and marketing of agricultural and fishery products – Food-processing Department; Agri-environment – Plant-protection Department; Setting up of producer groups – Department of Agricultural Offices.

¹¹³ According to my interviews the reason for this was a mistake, made by the Hungarian administration. The level of agricultural employment, which was a very strong indicator for the national allocation of funds, in the Hungarian case, was set at a low level, based on the number of agricultural employees, registered by the Statistical Office. However, this did not contain the large

shock for Hungarian rural policy makers and increased the debate concerning the allocation during summer 1998. Finally, according to the compromise, some 60% of the available resources would have gone to agriculture at the start, reducing its share to 40% towards the end of the programme (although, this only occurs if the agri-environmental measure is counted under the rural development section). According to declarations and my interviews, none of the domestic stakeholders were fully satisfied with this result.

The other opponent of the 'first draft' was the European Commission. In November 1999, at a screening meeting, representatives of the RDU presented their views on a rural development direction, which is programme based and would highly decentralise SAPARD in Hungary. The EU officials informed them that they misinterpreted the concept of the programme. They stated that SAPARD has to be project based, more agriculture orientated and controlled by the Central Government. There were also some disagreements over the agri-environmental component of SAPARD. By the time of the programming procedure, Hungary already had a national agri-environmental programme, accepted by the government and the Parliament. However, in several subsequent years, this programme was dismissed from the national budget at the last minute. At some point in the above-described intra-ministerial argument, the agri-environmental lobby entered the bargaining, and for a while seemed to have a chance to grasp a significant share of the SAPARD resources for agri-environmental aims. However, this was not realistic under the domestic political conditions, and the European Commission also expressed its disagreement with such an allocation of the resources, since SAPARD was intended for 'pilot' agri-environmental measures only.

On the 29th of December 1999, the deadline for receipt, the Hungarian SAPARD Plan was submitted to the EU. It was formally accepted, although the EU tabled 23 amendments, especially for: environmental data; motivation; the situation of disadvantaged groups (namely ethnic minorities); the coherence of the whole programme and the lack of effective social dialogue. The deadline for making amendments was short, the middle of March 2000. To improve the social dialogue component of the programming process MARD organised a forum with 31 NGOs and

number of original producers, part time farmers and family members. Other applicant countries did the

interest groups to inform them about the Plan and the requests of the EU. However, according to several interviews the meeting was a very formal one, the participants did not receive any material in advance for preparation, there was no space for discussion, and comments made at the meeting were not included in later versions of the Plan. Another telling piece of evidence about MARD's approach to social dialogue is that the SAPARD Plan itself was a confidential (some said a 'top-secret') document during the programming process¹¹⁴. In contrast other countries made revised versions of their SAPARD plans accessible for debate and social dialogue, through publishing them on the internet.

After two more versions, on 13 September 2000, the Star Committee discussed the Hungarian SAPARD Plan, which was finally accepted by the European Commission on the 18th of October. However, it was clear already in the summer that in year 2000 no money can be spent because of the delay. To be able to transfer resources for the next year, the Multi-annual Financial Agreement as well as the Annual Financial Agreement for year 2000 should have been signed that year. These agreements were supposed to set up the detailed financial rules of the programme, including the decentralisation of administration to the level of the applicant countries and the basis of the institutional system. Decision was also made here that the financial, implementation and monitoring rules of the EAGGF Guarantee section would apply to SAPARD. The agreements could not be signed in 2000, however, partly because of delays on the Hungarian side, but also because the EU's own legislation on these matters (Commission Regulation 2222/2000) was only accepted in the middle of December. Finally the deadline was extended, and all applicant countries, including Hungary signed all required agreements by March 2001. With this, all programming and legislative requirements were fulfilled for the start of the programme. However, the appropriate institutional system was still missing and SAPARD was already one year late.

opposite, setting their level of agricultural employment at the highest possible level.

¹¹⁴ This was so not only for the wider public, but also for researchers and experts. In spring 2000 I myself, as a researcher of the Institute of Economics of the Hungarian Academy of Sciences, was not officially allowed to access the document. I could only receive a copy for research unofficially, through personal connections.

Consultations, context and programming

In connection with drawing up the National SAPARD Plan, the following could be concluded:

Before the submission of the Plan there was a wide range of consultations with professional agricultural organisations. In the case of agricultural measures, mainly various networks and institutions of MARD and economic interest groups (such as the National Association of Food-processors) were involved. Concerning environmental aspects, various authorities (Soil Protection Authority, Environmental Protection Authority) were consulted. At the same time, other ministerial departments could only comment on a rather advanced draft of the Plan. Notwithstanding, towards the end of the programming period an inter-ministerial meeting was also organised, where other ministries could reflect on the Plan. After this meeting, as a result of an initiative of the Ministry of Environment, the 'Impact on the environment' was included within the criteria for assessment of projects.

According to interviews, environmental NGOs and civil organisations were less involved or not consulted at all. An exception is the agri-environmental measure itself. This was heavily based on the National Agri-environmental Programme (NAEP), which was prepared before SAPARD through a wide partnership and consultation with NGOs and experts. In fact, the SAPARD measure aimed to introduce some of the special schemes of the NAEP in pilot areas. The long preparation of NAEP and the involvement of environmental NGOs can be considered as the approach work for this part of SAPARD; however, in connection with the final set up of this measure (the choice of pilot areas, or the implemented measures) there was no effective further consultation with NGOs.

Rural development NGOs were consulted through an umbrella organisation, the Hungarian Rural Parliament, but this consultation was also very limited, occurred at the last minute and did not have much effect on the final product. According to an interview, undertaken with the chair of the Hungarian Rural Parliament, they received the Draft Plan on 8 December 1999 (a couple of weeks before its submission to the EU) and were allowed only 4 days to discuss the Plan with their 400+ member organisations. Also, the text of the plan was already being translated into English by

MARD at the time, which meant that suggestions could not really be included at that stage. Nevertheless, the Rural Parliament gathered many comments and presented a 20 paged document with detailed criticisms and suggestions relating to the Plan. According to their opinion, these comments were mainly ignored. However, when the EU sent its request for amendments in April, it contained very similar criticisms. The Rural Parliament did not receive further information and although it offered its contribution and special expertise for further work, it was not consulted again about later versions of NSP.

Political and budgetary fights, especially in year 1999, were rather disadvantageous for co-operation and the preparation of the plan, causing delays and inconsistencies in the result. On the regional and micro-regional level, SAPARD Plans were usually based on broad consultation with economic and social partners (see the next section), though these had rather limited and indirect effects on the National Plan. Traditional agricultural interests were the most influential, though the EU and the 'rural development lobby' also had significant effects on the result. Nevertheless, none of these actors were completely happy about the process or the end product. Environmental concerns and actors received little attention, though relevant environmental legislation (such as the Nitrates Directive and the Hungarian National Environmental Legislation) must be applied during the programme. Concerning agricultural measures, the main concern was competitiveness. Relevant interest groups and institutions were consulted. However, critics maintain that the interests of small producers were mainly overlooked, and most support is likely to go to large producers and the processing industry.

The main domestic fights during the preparation of the Plan occurred over the division of the budget between agricultural and rural development measures. The agricultural lobby finally came out on top. However, through the 'pre-SAPARD programme'¹¹⁵,

¹¹⁵ The Targeted Support for Rural Development (in Hungarian: Vidékfejlesztési Céltámogatás – VFC) was planned and implemented as a simulation of the 'rural development type' measures of SAPARD and it was subsidised from the domestic share of the delayed EU programme (see details in the next section).

based on domestic rather than EU resources, SAPARD has indirectly had more influential effects in the field of rural development than in agricultural restructuring.

Main conflicts with the EU were about accountability and transparency; and about whether SAPARD should be a project based, more sectoral policy, concentrating on the building of central institutions and procedures, accountability and transparency; or if it should take a more decentralised and integrated approach, concentrating on local participation and building capacities not only at the central but also at lower levels. The European Commission won the battle. The best feature of the programming process was that it represented a strong force for a much-needed reform of the Hungarian administration. Various departments had to co-operate with each other and become aware of EU requirements. The worst feature of programming was that political and budgetary interests tended to overrule professional arguments and the acute needs of Hungarian rurality.

4.2. The 'side programmes'

In Hungary, besides the 'official SAPARD' Plan and Programme, a range of other domestic policies and plans exist. These will probably never receive financial support from SAPARD. Nevertheless, they are – or at least used to be called – 'SAPARD' and they are still somewhat connected to it in the mind of most rural development actors in Hungary. According to our research, contrary to the 'official SAPARD', these programmes have had significant effects on Hungarian rurality, channelled and mobilised resources and brought new issues and interests into the rural development arena. They also popularised an integrated approach to rural development and prospective elements of the rhetoric of EU rural policies.

In spring 1999 the recently established Rural Development Unit (RDU) of MARD, and the expert team of VATI, working on the SAPARD Plan, intended to base SAPARD on local participation and integrated multi-level programming. The basic component of this plan was a system of local development associations (LDAs), similar to Local Action Groups in LEADER (see 1.2.5.), covering least developed rural areas. According to their conception integrated rural development programmes would have been supported by SAPARD on the micro-regional level. For this, LDAs

and some local institutions had to be set up or reinforced, and assisted in developing their integrated programmes. To catalyse this process, in April 1999, RDU launched a programme for voluntary rural micro-regions, with a budget of some 1 million EURO (Mohácsi 2001). Each micro-region could receive altogether some 10 to 20 thousand Euros for successively undertaking a SWOT analysis, then formulating a strategy and finally an operative local development programme. In Hungary there is a centrally organised system of 150 'statistical micro-regions', based on the historical structure of public administration. This system has been used as the basis for data collection, domestic policies and all sorts of designations (see 3.4.3.). However, RDU offered a programme for 'voluntary micro-regions'. The only requirement was that each association had to cover a continuous geographical area and that none of the villages could belong to more than one of the voluntary groupings. With this action MARD reinforced (or at many places actually created) a new micro-regional system, alternative to the statistical one. The two systems have existed in parallel ever since, but 'SAPARD micro-regions', are usually smaller (there are more than 200 of them in the country today) and often have significantly different boundaries¹¹⁶.

Although the application form was complicated¹¹⁷ and had an extremely short deadline (a few weeks only), it generated a large amount of interest and great expectations in Hungarian rurality, and probably became the most influential programme for rural development. Altogether 192 associations applied for the programme, covering 2500 settlements and almost the entire area of the country. Interest was at least partly generated by the belief that local development programmes were going to be subsidised through SAPARD. Later the RDU denied that their intention was to raise expectations of a 'bottom-up SAPARD programme' (Loncsár 2001). However, initially all relevant actors including the officials of MARD called them 'micro-regional SAPARD programmes'. It was stated in 1999 at a public forum that those villages, which do not participate in the micro-regional planning, are likely to be left out of the whole SAPARD programme.

¹¹⁶ There is frequent confusion between these two categories, even in domestic debates.

¹¹⁷ Academics rather than bureaucrats set up the application form and procedure. They required a large amount of information about the prospective micro-regions, much of which was not readily available even for local authorities.

Associations of local authorities as legal entities were eligible for support. Some of these had existed for years; others were freshly set up for this programme. Originally only pilot areas would have received some money for preparing first strategic, then operational integrated rural development programmes. In the end, however, all applicants received the necessary resources. They were ranked into three groups, according to the quality of their partnership and application, and with a few months delay even those in the weakest group could start their programming. Representatives of each micro-region participated in a standardised rural development training programme organised by RDU and VÁTI. During the following two years most strategic and operative programmes were prepared. Micro-regions were encouraged to create wide partnerships and to write ambitious, long-term, integrated development programmes, based on a combination of local resources and external aid, and the concepts of sustainability and local participation.

Besides training and planning support, the other influential programme implemented by the RDU first provided the wages and some expenses for a rural development manager in every SAPARD micro-region. This programme was launched in 2001 and has had a positive effect, ensuring that at least one trained full-time employee is working on development issues in each locality. The process is as follows: MARD gives money to the micro-region, the manager is selected through local procedure and the employer of the manager at the end of the process is the micro-regional association. As a result of this possibility the number of rural development managers at this level multiplied and today such a position exists in almost 200 rural micro-regions. Nevertheless, the political opposition criticised the programme saying that first of all it served the reinforcement of the local electoral base of the Independent Smallholders Party (whose leader was the minister of MARD at the time).

In parallel with this programme originated by MARD, its 'shadow ministry', the Regional Development Secretariat in the Prime Minister's Office launched a similar programme. This established rural development manager positions in all 'statistical micro-regions'. Since statistical micro-regions did not have organisations and/or decision-making bodies, these managers were selected and commissioned centrally by the Prime Minister's Office. After the 2002 elections the new government changed the rural development managers in most of the statistical micro-regions. As commentators

state (Miklósi 2003), the two parallel development managers hardly had any co-operation with each other (the Prime Minister was in a different party from the MARD Minister). It was also said that those managers, commissioned by the Prime Minister's Office often had no connections or local identity, and rather served as political campaigners, trying to reinforce the influence and electoral basis of the actual government in rural areas.

Another programme, launched by RDU became well known as the 'pre-SAPARD' programme. The 'real SAPARD' was late, though the Hungarian share was already designated in the national budget in 2000 (see in 3.4.1.). The domestic share for the three rural development measures in SAPARD amounted to some 5.6 million Euros. From these resources the RDU launched an experimental programme, implementing the rural development section of the National SAPARD Plan, officially named as Targeted Rural Development Aid¹¹⁸. Despite a limited budget, 343 projects (an average of 1.5 projects/micro-region) were supported throughout the country. The programme could neither satisfy all rural needs, nor cover for the overdue SAPARD. However, it facilitated the testing of the Plan; the establishment of local development institutions; and kept the interest of rural actors awake. The pre-SAPARD has been repeated in the following two years, with similar conditions, but with a growing budget¹¹⁹, and it practically became the main instrument to deliver financial aid in the Hungarian rural development system. Finally, with the launch of the official Hungarian SAPARD Programme in October 2002 the programme was stopped, since its financial basis – the Hungarian own share – was supposed to go to the Official SAPARD Programme.

Another programme, the 'Hungarian Pilot LEADER Programme' was also launched by the RDU in 2001. The programme had a very small budget¹²⁰ of EUR 1.2 million, therefore only very few local action groups (LAGs) could be supported. Through a long selection procedure 26 groups were chosen, then, based on their preliminary

¹¹⁸ In the Hungarian terminology it was VFC – Vidékfejlesztési Céltámogatások.

¹¹⁹ The budget was HUF 4.5 and 5.5 billion subsequently, which means that in 2002 the budget was more than half of the expected EU support.

development strategies this number was reduced to 14¹²¹. A range of workshops were organised and a monitoring system was set up by RDU to help the LAGs to develop functioning partnerships; to launch their programmes in the local area; assess and select applications; etc. The LEADER-type philosophy was completely alien from the bureaucratic and financial system of MARD and it was extremely difficult to fit it into the existing structures. Ministry officials and local actors were learning together, which resulted in many delays of the process, and the programme became very late. In Autumn 2003 project selection was made by LAGs and approved by the Ministry, small details of the financial system and final contracts with the beneficiaries were still missing and the money could not be paid out.

The RDU's policies have been criticised by DG Agri of the European Commission and various domestic interests (according to Commission 2001/1, and my interviews). As it soon appeared, SAPARD, even if implemented, could only have covered a small fraction of the financial resources needed by the micro-regional programmes. One of the main criticisms made by the Commission and by domestic agricultural interests was that the programme for the 'development of micro-regional plans' made infeasible promises and raised too high expectations (according to my interviews). At the same time, the MARD and RDU failed to work out sufficient strategies to fulfil aspirations and avoid the disillusionment of local rural development actors, since pre-SAPARD was only a 'drop in the ocean'. Another criticism was that the 'voluntary village associations' due to the tight deadline, had to be set up too quickly at the beginning. The resulting regions are not always the most appropriate for development purposes, nevertheless, as a consequence of long term planning and common projects, it is hard to quit or join an association. The quality of the policy documents, evaluation and monitoring of applications and training provided by the RDU (according to my interviews) were also criticised by some experts. Another criticism – not without foundation - was that these local payments could have been open to

¹²⁰ It was based on some unspent resources of the 'pre-SAPARD', which should have been paid back to the central budget, however, through political lobbying was saved by RDU and therefore the Pilot LEADER could be launched.

¹²¹ Two more groups dropped out during the preparation, not being able to meet some important deadlines, leaving the final number of LAGs 12.

political abuse, channelling resources according to political preferences rather than rural needs.

Even so, the described policies have had a huge influence. Similarly to the LEADER Programme, the 'micro-regional SAPARD' generated a lot of enthusiasm, mobilised human capital and local resources and raised high expectations in rural Hungary. People started to think and talk about their local problems and possible solutions. Networks and partnerships were set up, local actors learned to deal with 'EU-type' vocabulary and procedures. There was a tangible and novel sense of things happening across rural Hungary. The reasons for this were manifold, with expectations of significant external (EU) resources being presumably one of the most important ones. Most of the 'SAPARD micro-regions' have had their integrated development programmes with detailed project proposals ready for a year or two now. They have invested much time and enthusiasm and their own resources on this. Nevertheless, for most of them, only a couple of their projects are likely to have been supported so far. This situation could have serious consequences for the future. For many actors (local and governmental), these RDU policies were the first occasion to meet EU-type rules and rhetoric, or to engage in partnerships and local development activities. If resources do not arrive and expectations remain unfulfilled, these people might become disillusioned and be less ready to participate in future domestic or EU programmes.

4.3. Analysis and evaluation of the Hungarian National SAPARD Plan

There are various confusions about what to call 'the SAPARD Plan' in Hungary. As a result of the above described programming procedure, apart from the National Plan, there are seven regional, 19 county level and over 200 micro-regional rural development plans, all styled as some sort of 'SAPARD' Plan. However, the latter ones have little or no relevance for the EU pre-accession programme itself. Therefore, in this section I only examine the National SAPARD Plan (NSP). On the other hand, the accredited NSP contains nine measures altogether, which includes eight development measures and the compulsory 'technical assistance'. Nevertheless, as a result of the difficulties of setting up the required institutional system, the Hungarian

government has only been able to accredit the Paying Agency for three development measures so far (see details in 4.4.2.). The implementation of the remaining five development measures is rather ambiguous. Especially in light of the approaching date of accession, there might be too little time for the implementation of these (or at least some of these) measures. In this section, the full programme is examined, although I concentrate only on the implemented measures in detail.

4.3.1. Priorities and objectives of the Plan

According to the NSP, the three main strategic priorities are:

- Increasing the competitiveness of the agriculture and processing industries;
- Focusing on environmental protection aspects; and
- Enhancing the adaptation capabilities of rural areas.

Seven specific objectives are also listed¹²². Four of these are directly related to the competitiveness of the agri-food industry; one to environmental protection; and only two of them can benefit both farmers and the non-agricultural rural population. Job creation in rural areas is also considered to be important. Through the implementation of the measures of the SAPARD plan, 25,000 jobs are expected to be stabilised (maintained and created) in agriculture and the food industry. Alternative employment possibilities are not quantified. In general, the main emphasis of the plan is on the agricultural sector, specifically focusing on the production of pork, poultry, beef and animal fodder. Other objectives, such as rural diversification or environmental protection seem to have secondary importance. This complies with the practical

¹²² The special objectives are:

- increasing the market efficiency of agricultural production;
- establishment of the conditions of food safety, hygiene, environmental protection, animal welfare;
- increase of the proportion of products complying with the requirements for higher quality and increase the rate of products with higher level of processing;
- reduce the burden on the environment;
- setting up producer groups, which help the producers to enter the market under better conditions;
- job preservation and creation in rural areas;
- enhancing the capabilities of rural areas to retain their population.

approach taken by DG Agri and the EU SAPARD Regulation¹²³, though it is somewhat in contradiction with the formal objectives of the NSP and the overall philosophy and rhetoric of EU rural development. Agricultural measures do not have geographical limitations; all areas are eligible. Rural development measures are limited to those settlements, which have a population density of, or below, 120 capita/km². These settlements cover some 84% of the surface and 38% of the population of the country, embracing the least developed rural areas.

4.3.2. Measures, eligibility criteria indicators and financing of the measures

According to Table 7, almost 60% of the resources serve agricultural restructuring, one third is devoted to other sectors of the rural economy and less than 5% is for agri-environment. This reflects the relative importance of the various objectives of the Plan, as described above. The EU co-financing rate is 75% for all measures, though the ratio of public expenditure and the beneficiaries' own share varies considerably between and even within measures. Agri-environment and producer groups receive 100% support; rural infrastructure and renewal receives up to 75%; investment in the processing industry gets up to 40%; and investment in agricultural buildings or machinery receive up to 40% and 30% respectively¹²⁴. As a result, the EU support in proportion to the total eligible cost amounts to only 37.8%. The upper limit of support for a single project or a single beneficiary also varies greatly between different measures. Agricultural investments of a particular company or producer, for example, can be supported by up to EUR 1 million altogether, from which a single project can receive a maximum of EUR 160,000. In contrast, for investment in the field of rural development (diversification, or creation of local markets, for example) the upper limit of eligible support is only some EUR 20,000. For public rural investments (building of roads and other infrastructure, renewal of public buildings, etc.) the upper limit for a single project is also EUR 160,000.

¹²³ Objective b. of the SAPARD regulation is: solving priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the Candidate Countries." (EC 1999/2, Article 1).

¹²⁴ In the case of the last two the Hungarian Plan goes to 10 and 20% below the EU offer respectively, giving less support to the farmers than would be allowed by the SAPARD Regulation. However, according to interviews, this low level of support was an 'unofficial requirement' from the Commission, necessary for accreditation of the national plans.

Table 7. Measures of the Hungarian National SAPARD Plan

Sectoral classification of measures	Codification number of measures	Title of measures	Share of measure
Agricultural measures			
	111	Investments in agricultural holdings	28,46 %
	113	Improvement of vocational training	1.79 %
	114	Improvement of the processing and marketing of agricultural and fishery products	20.53 %
	116	Agri-environment	4.27 %
	117	Setting up of producer groups	7.35 %
Agriculture (total)			62.40 %
Measures in rural development			
	1305	Renovation of villages	9.06 %
	1307	Economic activities providing alternative income	15.46 %
	1308	Improvement of rural infrastructure	11,98 %
Rural development (total)			36.5 %
Technical assistance			1.10 %
Grand total			100.0 %

Source: National SAPARD Plan of Hungary (MARD 1999)

The justification and main objectives of each measure, similarly to the preamble of the NSP, emphasise the importance of the creation of jobs; diversification; support for young people; maintenance of the rural population and improvement of the environment. Nevertheless, details imply a somewhat different picture. The most important indicators for the evaluation of the applicants, especially for agricultural measures, are usually: economic viability; growth of competitiveness, the rate of return on investment and the number of jobs created. They concentrate on competitiveness, first of all supporting already competitive companies, or those that can easily become competitive. Agricultural measures, again, do not support synergic effects and the applicants' connections with other SAPARD measures or domestic

rural policies¹²⁵. The rural development measures are somewhat different in this sense. They all strongly support the applicants' connections with other measures, rural policies, local- and regional development programmes. There are also some important qualifications and restrictions amongst the eligibility criteria of various measures. For example, under the EU rules the processing industry measure 'retail level production' is not eligible for support.

4.3.3. Agri-environmental concerns

The words 'environment' and 'environmental' appear 239 times in the document. Environmental protection is also one of the main objectives of the Plan. Despite this, commitments towards environmental issues do not seem to be very strong. The Plan contains a five-page description of environmental issues affecting rural areas. It is part of the chapter of the SWOT analysis, but is, however, rather separate from the chapter and the rest of the document. It lists and shortly describes (but does not analyse) the main issues (problems and opportunities) concerning soil, water, flora and fauna. Erosion, acidification and shrinking of natural habitats are mentioned as the most relevant threats, which is comparable to my analysis in the previous chapter. Nevertheless, one of the greatest environmental threats - land abandonment - is hardly mentioned in the document. On the other hand, in the SWOT analysis of rural areas, the first weakness to be mentioned is that the 10% of the land area has been 'withdrawn from cultivation due to protection' (MARD 2000: 40). This is typical for the whole document. With the exception of the agri-environmental measure, environmental protection is generally treated as an important EU requirement, which is rather an obstacle for agricultural production than a potential advantage for rural development.

Correspondence with adequate domestic environmental legislation, which is mainly in compliance with EU rules, is compulsory for all projects. In addition, environmental protection, environment-friendly practices or compliance with EU rules in this field appear among the objectives of most measures. Nevertheless, examining the

¹²⁵ An exception is some support for connection with the agri-environmental programmes.

assessment criteria, besides the agri-environmental one, only two more measures (agricultural investment and processing industry) have a direct positive connection with the environment¹²⁶. Under the agricultural investment measure, compliance with the EU Nitrates Directive is a specific requirement. Also, in the measure for the processing industry, the compliance with a range of EU environmental and food safety regulations is specifically required. However, environmental assessment is not a criterion for any of the measures. Based on all these, an obvious contradiction between the objectives and the expected results of the programme can be anticipated.

The agri-environmental measure itself is strongly based on the Hungarian Agri-environmental Programme. This measure has by far the longest description and justification within the NSP¹²⁷. Objectives, various work packages and indicators are described and justified in a very detailed and precise way. Objectives, eligibility criteria, monitoring and the whole measure complies with EU rules and practices. However, this measure is supposed to be a pilot scheme, implemented on selected farms in just 15 small rural localities¹²⁸, and having only 4.2% of the SAPARD budget. Consequently, it could not address significant environmental and agri-environmental problems¹²⁹, but would remain a small experiment even if fully implemented.

4.3.4. Qualitative analysis of the National SAPARD Plan

Analysing the NSP, one could say that MARD learned the lesson from DG Agri. The first intention of RDU officials was to write a territorial, programme-based synergic plan concentrating on sustainability, human resource development and local participation. In contrast, the final NSP is a rather sectoral, project-based document

¹²⁶ In practice this means having some connection with the Hungarian Agri-environmental Programme or the agri-environmental measure of SAPARD, which is worth 5-10% during the evaluation of the project proposal.

¹²⁷ This measure has 17 pages in the plan; the rest of the measures have 7 pages on an average.

¹²⁸ The localities were chosen by experts from the list of Hungarian Environmentally Sensitive Areas. The choice was based on connections and human resources. In general, those localities were chosen where the programme organisers had connections with local people.

¹²⁹ Together with the domestic share the measure only had 10% of the yearly amount, which would have been required to launch the Hungarian Agri-environmental Programme at that time.

focusing on classical intensive and competitive agriculture; mostly lacking social aspects and providing little support to other sectors of the rural economy. It misses the chance of combining various rural policy areas under the framework of a single programme, and of promoting positive synergic effects in certain rural localities. Instead, most of the plan handles different measures, even different projects, completely separately. It does not build on already accomplished achievements such as micro-regional programmes, existing partnerships or the experience of local and regional level officials.

The three rural development measures work somewhat differently. They show much more coherence amongst each other, although they are almost completely separate from the rest of the Plan. On the other hand they have very limited resources altogether, and cannot be expected to have a great effect on Hungarian rurality. Concerning economic activities, alternatives to the agri-food sector are especially poorly supported. Comparing this to expectations raised in rural localities by SAPARD at the beginning, the programme is likely to cause disappointment to local actors. According to my interviews, civil society and rural development NGOs heavily criticised the NSP for a variety of reasons. The most important were for: being too agricultural; lacking social aspects; and repeating out-dated EU agricultural policies, instead of joining the new and progressive rural development direction.

Even without questioning its basic principles, the Plan can also be criticised from the inside. The main effect of SAPARD implementation is likely to be capacity building in various sectors and at various levels, preparing the institutional system, officials and future beneficiaries for working with EU rules and absorbing more significant aid after accession¹³⁰. However, if it is not fully implemented, then it cannot fulfil even this purpose. The sectors that are the most likely to be left out (agri-environment, rural diversification, etc.) are those with the least developed institutional and procedural systems and the least experience of central policies, and therefore those that would need the most preparation.

¹³⁰ This seems to be the main objective from the EU's side.

The three measures that have been launched already - agricultural investment; processing industry; rural infrastructure - do not bring much innovation into the Hungarian rural development arena. They duplicate (or in some cases complement) similar domestic schemes. However, domestic policies are easier to approach and sometimes even pay better than their counterpart under SAPARD. A telling example could be the investment in agricultural machinery that is described below.

Beyond fulfilling all eligibility criteria, producers have to bind themselves to the same activity (continuously fulfilling all EU requirements) for at least five years. If they fail to fulfil any EU criteria during this time (they cannot maintain created jobs, for example) then support can be withdrawn from them and they may be subject to paying the interest and a fine for wrongful use of EU funds. They have to demonstrate that their business is viable and is at least close to being competitive. At the same time, they have to prove that they could not do the work without EU support. SAPARD only pays at the completion of the project, therefore they have to have the cash for buying the required machinery or equipment. On top of this, SAPARD cannot be combined with any other public support; therefore they cannot have an advanced payment from another source. To obtain a sufficient bank loan is also difficult for several reasons. Short-term interest rates are still rather high in Hungary (well over 10%), so a loan would be expensive, further reducing the value of the support. On the other hand, banks require some security. For most disadvantaged rural producers the only sufficient security is usually their homes. However, when they apply for the SAPARD support, the Paying Agency also requires a safety deposit, and puts a mortgage on the applicant's property. Moreover, this has to be a mortgage on the first right, according to the financial rules of SAPARD. Under Hungarian circumstances, a bank would rarely give a significant commercial loan, if it was to have only a second-right claim to the applicant's property. On top of everything, SAPARD support is not even very high, only 30% of the whole investment, and machines have to be obtained according to the strict purchasing rules of EAGGF¹³¹.

¹³¹ Above a certain value anything can only be purchased through an open tender. This means more costs, time and possibilities to fail.

A vicious circle seems to be closing in relation to the measure described above. If one does not have money already, it can be extremely difficult to seek SAPARD support¹³². In contrast, under the domestic support scheme, 20-25% of any investment in machinery can be applied for, without going through complicated procedures, accepting future obligations or putting a mortgage on one's property. Moreover, this money can be combined with other public support (regional development schemes, for example). These together can go well over the 30% provided by SAPARD. As a consequence, small producers without significant financial and bureaucratic capital are most likely to stick to the domestic schemes. According to interviewees, most resources under this SAPARD measure are likely to go to large, intensive and competitive agricultural companies and entrepreneurs. This direction is also supported by the very high upper limit of EU resources, which can be given to a single company¹³³. Similar results can be expected under the measure for the 'improvement of the processing and marketing of agricultural and fishery products'. First of all, this measure, contrary to its name, only supports investment and not marketing activities in Hungary. This means that, for example, the development of a common marketing strategy for special local or regional products, which could benefit all the producers of a locality, will not be eligible for support. The eligibility for investment support is also rather restricted, since 'retail level industry' will not be eligible at all. According to this, and to the strategy of MARD, most of the resources of this measure will go to a few large processing companies, having country-wide importance. Its main purpose will be to make the necessary investment for the compliance with hygiene and food-safety requirements of the *acquis*.

¹³² Another angle on the same problem: according to the opinion of a county level official of MARD, who has been working on domestic investment schemes for years, if all rules of the Plan will be applied, it will be impossible to spend the money at all. According to the eligibility criteria and the indicators (which favour young farmers, less favoured areas, small companies etc.) in his county there are fewer than 10 producers who could apply and hope to get a good score during the evaluation procedure. Nevertheless, these producers would not have the required own share for buying any expensive piece of machinery.

¹³³ This limit, EUR 1 million, is by far the highest amongst all measures, and in the Hungarian circumstances it is a very significant amount of money for any agricultural company.

These two agricultural measures cover half of all SAPARD resources. Moreover, it may represent some 80% of resources that are likely to be spent in the near future¹³⁴. As a consequence, according to the above argument, most SAPARD resources will be received by large producers in the agri-food industry, if they will be spent at all. Apparently, the main explanation for choosing these measures for accreditation in the first round was because money can be spent here more easily and quickly than under other measures. Reasons for this are: there is much experience of investment support in the Hungarian system; and it is easier and more transparent to administer a few large projects than many small ones.

4.4. Institutions for implementation, payments and monitoring

4.4.1. The 'official version'

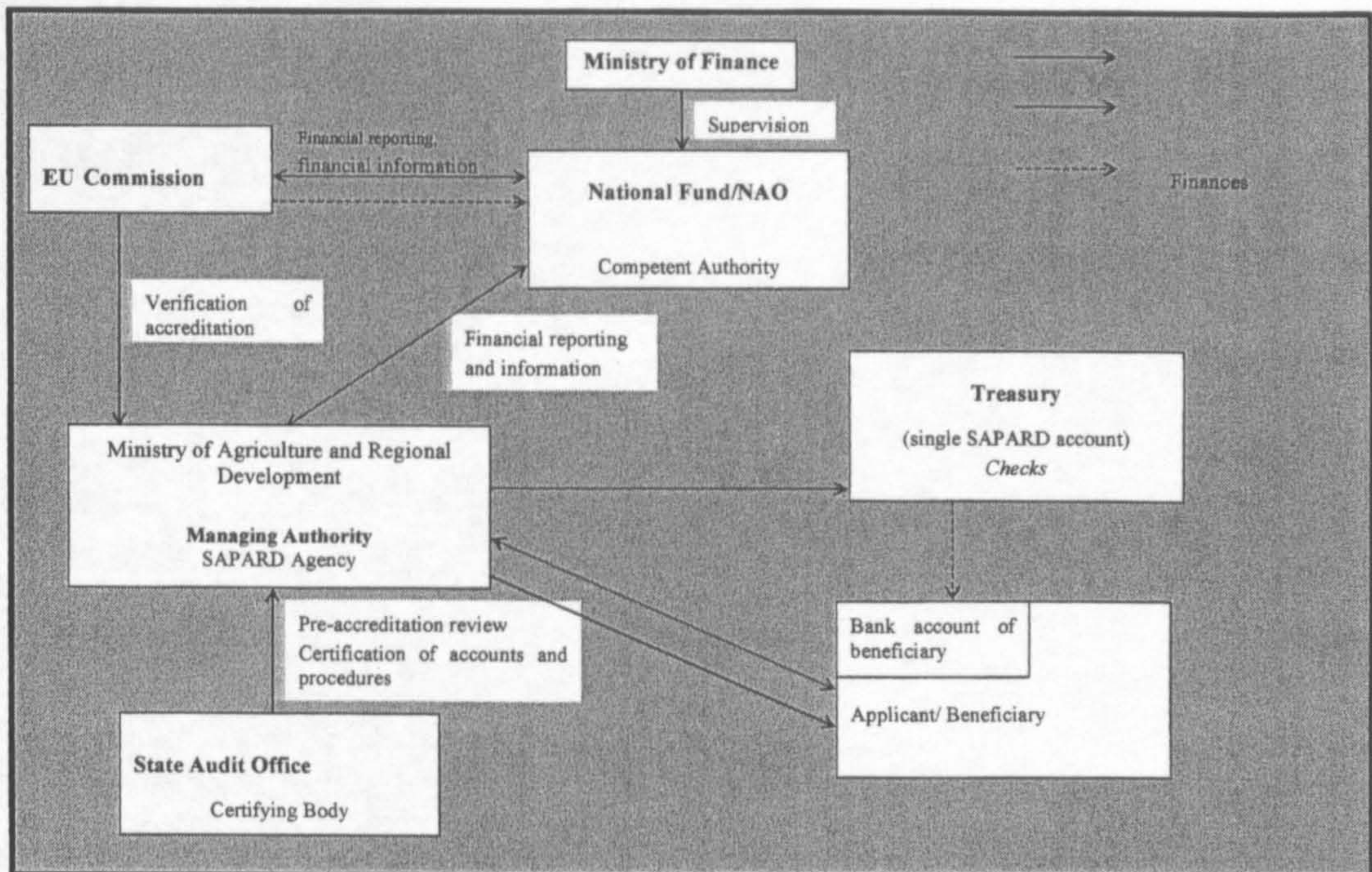
According to the NSP, the implementation of the programme will be carried out through the following institutions.

The tasks of the *Competent Authority* will be performed by the *National Fund*. The *Managing Authority* is the *Ministry of Agriculture and Regional Development* (MARD), which is responsible for the contents of the measures, the call for tenders and decisions taken on the basis of the evaluation of the tender documents. The *SAPARD Secretariat (managing authority)*, established at the Department of European Integration within MARD, does the overall management of the Programme. The MARD also hosts the *Central SAPARD Agency* with its seven regional bodies. The tasks of the *Certifying Body* will be performed by the *State Audit Office*. The State Audit Office will certify the SAPARD Agency. The Competent Authority and The National Authorising Officer, who is the collaborator of the Ministry of Finance, will inform the Agricultural Directorate of the European Commission on the result of the pre-accreditation procedure and certification. The *National Authorising Officer*

¹³⁴ This percentage can even be higher, since 12% of the resources, used under a specific measure, can be transferred from the unspent resources, originally allocated for other measures. In case of a large measure this can be a significant amount. According to MARD's position, all unspent amounts will be added to the measure on agricultural investment.

supervises the *National Fund*, which is at the State Treasury that belongs to the Ministry of Finance. The National Fund receives the SAPARD aid from Brussels, similarly to other pre-accession support such as PHARE and ISPA, and registers it as a separate account. The following diagram describes the connections between different institutions of the system.

Figure 6. The Institutional System of SAPARD



Source: MARD, 1999

4.4.2. Establishing the SAPARD Paying and Implementing Agency

The proposed institutional system is quite complicated. However, most institutions already existed in the Hungarian system, even if they had to be modified to fulfil EU requirements. The most difficult task was to establish the SAPARD Paying and Implementing Agency (the SAPARD Agency hereafter), which previously had no sufficient precedent in the Hungarian system.

After the submission of the first version of the Plan, MARD started to establish the SAPARD Agency. The original plan was to build it on the basis of the Agricultural

Intervention Centre (AIC), which was the paying agency for traditional Hungarian agricultural policies¹³⁵. For the accounting procedures of the whole NSP and the implementation of the agricultural measures of the Plan, 15 people were employed in the central office in Budapest, and four people in each of the 19 county offices of MARD (see 3.4.2.). The management and implementation of the rural development measures was planned to be the task of the Rural Development Unit of MARD. To fulfil this task they also established seven regional offices (three employees each), called Regional Rural Development Offices (RRDOs). This means that some 110 people received training and started to develop the required procedures at a reasonably early time (well before the acceptance of the final version of NSP), which was welcomed by the EU. However, in summer 2000 the whole process was stopped and started again from scratch.

There were various explanations for the change. Some said that the main reason was personal conflicts between the director of AIC and the responsible state secretary of MARD. According to the official explanation of the Ministry the change aimed to fulfil EU requests, to hasten preparation and to make the work of the SAPARD Agency better integrated into the Hungarian system. However, according to expert opinions and my analysis, the changes were the consequence of high political lobbying within MARD realising the future importance of the SAPARD Agency. SAPARD has small resources and a small administrative capacity, compared to MARD. However, after accession the SAPARD Agency is likely to evolve into the National Paying Agency for the CAP, which is one of the largest and most influential administrative bodies in each of the current Member States. When political leaders in MARD became aware of this, they did not wish to allow the development of such an institution outside the Ministry¹³⁶. As the next step, they wanted to fully integrate the Paying Agency into the ministry, making it simply another unit within the bureaucratic system. However, this contradicted the relevant EU requirements and was impossible due to internal disagreements. Finally, the 'new Agency' was established in October 2000, as a special unit of MARD. It is part of the ministry, but

¹³⁵ This is a governmental body, though it is independent from MARD or any other ministries.

not part of the hierarchy, being subordinated directly to the minister and the responsible state secretary.

The new start caused significant delay to the development. An EU audit group in November 2000 evaluated Hungary to be the least prepared for SAPARD amongst the Candidate Countries. This was quite a change, since a year earlier Hungary was said to be the best prepared for launching SAPARD. According to the original plans elements of the system (personnel, computers, procedures, etc.), which had been already developed in AIC, should have been simply transferred to MARD. However, since only three people came over from the 'old agency' the 26 employees of the 'new central office' had to be trained again. County offices were also terminated and seven regional offices appointed, each employing 11 people, most of whom were also new employees. The new system intended to cover all activities connected to the SAPARD implementation; therefore the role of RDU and its regional offices within the Programme became rather questionable. By that time MARD hoped to accredit the SAPARD Agency in the following spring (2001).

At the beginning of 2001 the minister and a number of other leaders¹³⁷ resigned from MARD. The department was lead by the PHARE Minister Without Portfolio for a while, but even after appointment of the new minister a strong influence from the Prime Minister and the Prime Minister's Office could be observed, in order to speed up the establishment of the SAPARD Agency. However, in May 2001, the EU audit-monitoring group found a very low level of preparedness (they estimated it to be 5%) of the Hungarian institutional system¹³⁸. Main objections were:

- insufficient number of employees in the SAPARD Agency (particularly in internal audit), and lack level of independence from MARD;
- unclear relation with the regional offices;

¹³⁶ A full-size, working national paying agency employs several thousand people and disposes of billions of Euros. In other words, finally it could have become a very significant competition for MARD.

¹³⁷ The state secretary who was responsible for the Agency and other matters related to SAPARD was already in custody at that time, for fraud and embezzlement.

¹³⁸ By this time Bulgaria, the frontrunner of CEECs, already launched its SAPARD and started to receive EU resources.

- too many measures needing to be accredited.

The low level of staffing was the consequence of limited resources, already noted by the EU and the Director of the SAPARD Agency several times. The second problem was a special case. The regional offices were organised within the respective county offices of MARD. The employees got their salary from the county office, but their tasks came from the Paying Agency. This resulted in many conflicts and very low efficiency. The EU communicated that in its current form the SAPARD Agency did not have any chance to be accredited; therefore changes had to be made to the whole system. Changes were also urgent, because of the possible loss of the 2000 SAPARD budget¹³⁹.

The SAPARD Agency and the SAPARD Secretariat, with the help of an EU twinning expert, prepared several suggestions for the solution of the problem. The final decision was based on spending the most money, in the shortest possible time, with the lowest administrative costs. For this, those measures were chosen which were likely to include larger, quickly implemented projects. Since SAPARD only pays after the completion of the projects, the three investment measures (in agricultural holdings, processing industry and rural infrastructure) seemed to be the most appropriate ones to be chosen. The number of employees in the central office was more than doubled, while the number of staff of the regional offices was raised by 50%. At the same time, the status of the regional officers was cleared up; they became subordinated only to the central Agency. For a short while, it was believed that the Regional Rural Development Offices were to be integrated into the agricultural offices, but this was finally successfully resisted by the RDU¹⁴⁰. At the same time, they lost their role in the SAPARD programme.

In the new set up the SAPARD Agency had 166 employees, 104 of which working in the regional offices. By the time of accreditation of all eight measures, the plan was to

¹³⁹ At the time all 2000 money would have had to be spent before the end of 2002. Later this date was postponed to 2003, which was the deadline for spending the 2000-2001 budget. SAPARD finally ended at the date of Hungary's accession into the EU, 1 May 2004. As a result of the opening of the remaining rural development measures in January 2004, all money was contracted and spent.

¹⁴⁰ These regional offices were needed for the domestic VFC programmes, which were already implemented at that time.

raise the number of employees to 335 altogether, 231 of whom would work at regional level. The measure for 'processing industry' had a somewhat separate implementation. Since here only a few specialised, large country-wide projects are expected, this measure is not to be administered regionally at all. Instead, for this measure a central office, having similar structure to the regional offices, was set up in Budapest within the Paying Agency.

According to the officials' opinion, once the system is ready and accredited, there is 'not much else to do'. Regional offices accept the applications, check them for eligibility, put data on the computer and send everything to Budapest. The central office has two main departments. One is responsible for the implementation, the other for accounting. Besides these, two other important units should be mentioned. The Co-ordination Unit keeps contact with the regional offices and the applicants. The Internal Audit Unit is responsible for transparency and accountability. The successful applicant's data, coming from regional offices, is fed into the computer based indicator system, which processes it and gives the results straight away. This should be followed by contracting and, after the completion of the projects and on-the-spot monitoring (done mainly by the regional offices), payments can be transferred. However, second and third on-the-spot checks can follow during the subsequent five years. Larger investments can claim their costs back twice a year.

In August 2001 the director of the SAPARD Agency was changed, causing only a short disruption of the work this time. In the same month MARD announced the National SAPARD Plan (until then it counted as 'confidential') with the reservation that the government tries to accredit only three out of the eight measures planned. In December 2001 the EU auditing group came again, found much development and evaluated the SAPARD Agency to be nearly ready for accreditation. Another 3-4 month preparation was suggested before the start of the accreditation procedure. Nevertheless, they found serious problems at the National Authorising Office (it is structurally 'too far' from the SAPARD Agency, which did not have an acceptable internal audit system).

Several auditing visits followed, the last one being on the first week of September 2002. Then the SAPARD Agency was found to be ready for accreditation, though the NAO was still not prepared. Nevertheless, the EU suggested launching the

applications before the accreditation of the whole institutional system, which took place on the 26th of September. Finally, the first applications could be made and the selection procedure started. The final accreditation of the national institutional system (for three measures) took place in November 2002 and the first amounts were paid to the beneficiaries in early 2003. The rest of the measures, according to official declaration in November 2002 should have been accredited in early 2003, though this still has not happened at the time of finalisation of this study (May 2003). With the proposed date of accession in May 2004, sufficient implementation of the remaining measures is very unlikely in such a short time. After all, each of the 'deadlines' in this story were exceeded by at least a year. There is no indication that this will be an exception.

The Hungarian bureaucracy was one of the least efficient amongst all Candidate Countries at accrediting the SAPARD Agency. This was due to a combination of EU influence, political fights and bureaucratic incompetence. Many problems later encountered in connection with the Paying Agency (e.g. the low number of employees) were already well known in autumn 1999. The Agency should have been developed in parallel with the evolution of NSP to be able to start the programme in time, or with only a small delay. Nevertheless, at the beginning, political leadership did not realise the importance of the programme and institution building, therefore did not provide significant financial resources. Later, when these issues came to the centre of attention and became important, political fights hindered the process. Even the developments in 2001 can be attributed to political considerations and were probably the result of trying to 'clear up' before the impending elections.

Nevertheless, according to the opinion of several officials of MARD, EU requirements were excessive and unrealistic; moreover they were changing over time. Applicant countries were required to build a 'perfect agency', before receiving any EU aid. This meant having everything ready by the time of accreditation: several hundred people, computer system, mechanisms, some of which (monitoring and control mechanisms for example) will not be used before two years after the launch of the programme. On the other hand, almost every EU audit was carried out by new EU experts, who had different, sometimes even conflicting opinions and approaches compared to previous ones. These facts were difficult to accept for the Hungarian

bureaucracy, which obviously hindered co-operation and the whole accreditation process considerably.

An important question is: what will be the use of all this. The main product of the programme is most likely to be the SAPARD Paying Agency and other related administrative capacities. The bill for all this, which is comparable to the SAPARD budget itself, had to be paid for by Hungary. Costs of the establishment and running of the SAPARD institutions, already amount to millions of Euros¹⁴¹, before receiving a single cent from the EU budget. However, it will be worth it if it prepares the Hungarian system for receipt of future EU aids. Nevertheless, there are some doubts even about this. According to the current proposals, CEECs, including Hungary, will become Objective 1 areas after EU accession. This implies several consequences. Firstly, most EU aid will be delivered by the Structural Funds, instead of the CAP. Secondly, in the current EU system, in Objective 1 areas, most of the Rural Development Regulation is subsidised from the Guidance section anyway. If these rules remain in force, a paying agency, based on Guarantee rules, will not have much of a task in the rural development of Hungary as a new Member State¹⁴². On the other hand, if rural development will be implemented through Guarantee rules (or the current rules for SAPARD), then it will put further limitations and restrictions on the development of backward rural areas in CEE, even in comparison to less developed areas of the current EU¹⁴³.

4.5. Some conclusions - the effects of the preparation for EU accession on rural Hungary and the two rural development systems

As a result of domestic and international forces, a strong Europeanisation of rural development policies can be observed in Hungary. This means European-type

¹⁴¹ In two years, 2001-2002, MARD spent HUF 1.6 billion (EUR 6.5 million) on preparation for this programme which can only bring minor resources for the country even if fully implemented.

¹⁴² At the same time, according to the Copenhagen agreement, Pillar I payments will remain on a low level in new member states for the medium term.

¹⁴³ Rural development measures in Objective 1 areas remained implemented under Guidance rules, because the need for more flexibility, advanced payments and a generally more integrated approach in these areas was recognised by policy makers.

legislation, the development of strong central bureaucratic institutions and a fundamentally top-down style of rural policies in general. In today's Hungary, politics, the economy and to a certain extent almost every area of life is preoccupied with issues related to the country's accession to the EU. Various actors try to adapt to the sometimes impossible or meaningless requirements, hoping to stay in competition for the limited resources offered from above. The main concern and driving force is usually therefore the money. At the national level this means the resources offered by the EU pre-accession measures. This has two important consequences. One is the lack of a well thought out integrated development strategy. The reason for this is quite logical. The money is given by the EU and distributed according to a somewhat ambiguous strategy. The EU offers the ideologies of sustainability and decentralisation, and growth oriented programmes¹⁴⁴ (to be carried out through centralisation) together. This means two sets of values and two different policy directions – in other words two different policy paradigms - reinforcing the chaos in the young transitional democracies. These are trying to adapt their economy and society to an ambiguous European model, though the requirements of EU programmes are often inconsistent with domestic needs and their overall strategy. This can result in ad hoc decisions driven by external forces rather than a coherent inner logic¹⁴⁵. The other consequence is the predominance of competition, instead of co-operation in the development arena. If the main driving force is to access the money, then the actors of each different level (countries, micro-regions, single enterprises) and different sectors are all in competition with each other for those limited resources offered by central programmes. This makes co-operation, which is a crucial factor for integrated development, much more difficult, if not impossible.

On the other hand, civil society found much encouragement in the pre-accession process. The EU rhetoric on sustainability and participation and the positive examples

¹⁴⁴The resources of current and prospective programmes are significantly reduced compared to the existing CAP. The reason is that CEE countries will not receive 'full compensation payments' of the CAP that presently account for the majority of the EU budget.

¹⁴⁵ Although, there are also some counter-examples: originally Hungary wanted to use ISPA funding for the reconstruction of the country's motorway system. However, ISPA funding, as every EU aid, was threatened with long delays, because of the bureaucratic requirements and strong financial control. Therefore, in order to carry out urgent road developments without delays, the government changed its strategy. It financed road building primarily from domestic resources and used ISPA funding for railway reconstruction, which was considered to be less urgent for the country.

of LEADER, provided a 'ready made' ideology for local development activities and a greater involvement of non-governmental actors in development matters. Hungarian civil society used this opportunity and today represents probably the strongest *domestic* force for the decentralisation of power and resources in the development arena. Many NGOs gain increasing power and influence at the national, regional and local levels. Local development associations and their umbrella organisations have gained high level political representation. Apart from civil society, another internal force for decentralisation is sheer necessity. The complexity and the extent of current and expected rural problems of the country does not allow for the waste of local resources or for the single-minded application of central policies. There clearly is great demand for an integrated rural development model with differentiated solutions, which can utilise Hungary's rich natural, cultural and social resources in order to solve social, economic and environmental problems in the countryside (see 2.2.3.).

As a consequence, ideas of integrated rural development are spreading amongst Hungarian politicians, bureaucrats, organisations and the public. This process results in the reinforcement of an endogenous approach and the *decentralisation* of some of the power, resources and competencies in different arenas of rural development. Within MARD, there is a section (namely the RDU), albeit a small one with certain limitations, which is responsible for rural development and supports the ideas of integration. Partnerships were set up and a range of strategic planning documents has been prepared all over the country. No doubt, many of these plans were produced first of all to fulfil EU requirements and the different levels of planning often did not build on each other. However, the need for planning and co-operation has been realised and a lot of work has been done in this field. The National Agri-environmental Plan, though it is not yet fully implemented represents a great improvement in policy development and a great possibility for environmental/nature protection and agricultural restructuring in the near future. Popular perception of environmental issues is also changing gradually, in favour of a sustainable approach. The recently developed system of voluntary micro-regions, together with the rural parliament and their international connections possibly represent the most progressive elements of sustainable rural development.

As a result of both EU influence and domestic forces, two complementary, but sometimes conflicting, systems can be distinguished in the field of Hungarian rural development (see 2.2.2. for theoretical details). The first is the *central (or policy level) system*. This is based on fundamentally top-down interventions of the political centre and comprises such elements as: European and domestic rural policies; centrally redistributed resources; certain departments of MARD; skills, technical and procedural knowledge of various level bureaucrats; the Hungarian SAPARD Plan; central rules and regulations; representation of high level interest groups and NGOs, etc. It can also be characterised as formalised and *institutionalised*. The second is the *micro-regional (or local level) system*. This is based on more endogenous, bottom-up processes and comprises: local economic, political and social actors; local development plans; social networks and kinship relations; local authorities, innovative individuals; the system of micro-regional development associations and development managers; as well as the skills and experience of local actors in development work. It is usually characterised by a comparatively low degree of institutionalisation, but a responsive knowledge of local matters, enabling local actors to give flexible responses to internal and external challenges and possibilities, in order to protect and improve local life and values.

During the pre-accession period, the main aim of the *central system* in Hungary has been to prove that domestic bureaucracy is able to absorb EU resources and spend them in a transparent and accountable way. The development of appropriate legislation and the SAPARD Paying Agency were specific conditions to achieve this. This system works according to a bureaucratic logic, based on written rules, established procedures and centrally controlled institutions. It has a strong aspiration for the centralisation of resources and decision making power.; and was strongly influenced by the 'centralisation message' of the EU. In Hungary, political centralisation has had strong traditions way back in history and has been seen as an answer to challenges in recent years too. Our politicians are willing to accept nearly any conditions for financial aid and they can also use EU requirements to legitimate domestic reforms, centralisation, and the development of central bureaucracy.

The main aim of the *local system* was to improve rural livelihoods, based on both central and local resources. Institutionalisation (setting up micro-regional associations

and development agencies, employing rural development managers); and strategic planning (developing integrated programmes) seemed to be appropriate ways of doing this. This system is based on local resources and participation and the 'everyday knowledge of local people', even if using external financial help for local projects. The 'decentralisation message' of the EU has had a strong effect here, directly and through domestic programmes. Much of the local resources of Hungarian rurality (natural, human, cultural) cannot be utilised through central development policies. To employ these in rural development, a participatory, bottom-up approach is needed. At the same time, much of our countryside has to face serious problems (poverty, depopulation, and environmental and social degradation) and therefore no available resources can/should be dismissed from the development process. This might be part of the reason why decentralisation and a bottom-up approach to development was so much welcomed by local authorities, civil organisations and rural society in general.

Ideally, the two systems should work in co-operation, complementing each other, forming an integrated development system (see 2.2.4.). The central level is essential to access EU funds, for strategic planning, or to undertake large scale infrastructural developments. Simultaneously, the micro-regional level is crucial for efficient channelling of aid, to utilise local resources, and at the end of the day, for any significant structural improvement in the field of rural problems. The main task of development policies would be to connect and improve these systems: channelling resources, strategic aims and development models top-down; and conveying information and mediating social, economic, political interests bottom-up.

However, according to the analytical model in Chapter 2, the implementation of SAPARD strongly complies with the non-integrated system of rural development. The programme is based on central design and resources; and it is implemented and controlled through a much centralised bureaucratic institutional system. There is hardly any co-operation between the central and the local system of development, the money is directly delivered to the beneficiaries. Consequently, the establishment and/or improvement of local development institutions is not enhanced, and the local development system does not receive much help in general. Decisions on budget allocation are made according to simple quantifiable indicators, rather than sufficient and coherent information. Instead of complex programmes, single projects are

supported; there is little space for synergy and innovation; there is little chance to unlock local development resources which could raise significant added value for rural development.

CHAPTER 5. THE PICTURE FROM BELOW

SOFT POLICY TRANSFER, THE DEVELOPMENT OF REGIONAL INSTITUTIONS AND THE ROLE OF A MEDIATORY AGENCY

The previous chapter illustrated how the evolving central and local systems of rural development can fail to mesh and form an effective integrated development system. That was as a result of coercive policy transfer as part of EU pre-accession terms, and the lack of harmonisation and intermediary institutions, which could have mediated between the various development levels. This Chapter will explore another EU pre-accession programme, which had a rather different approach and, indeed, very different results for rural and regional development in a pilot region of Hungary, South-Transdanubia. I found two main factors enhancing the effectiveness of this programme. One was its experimental nature (or 'soft policy transfer-type'), which left much space for subsidiarity and the local adaptation of EU rules and development approaches. The other factor was a regional-level (NUTS II) development agency, responsible for the implementation of the programme, which successfully mediated between the emerging central and local worlds of development. I argue that this programme despite of its many deficiencies - was much closer to an integrated rural development model than SAPARD.

First I give a short description about the geography the main social and economic trends of South-Transdanubia, with special regard to access- and resource-type disadvantages prevalent in the region. Then I explore the evolution of regional development institutions and regional programming, investigating the effects of party politics and emerging fights for development resources within the region. I continue with the exploration of the design, implementation and results of two pilot regional and rural development programmes subsidised by the EU through the PHARE pre-accession instrument. The next section presents the establishment of the regional development agency; investigating its evolution under changing and often difficult circumstances. I analyse its operations in mediating between central and local development systems trying to create suitable political and institutional conditions for the PHARE programmes and other development initiatives. Finally I conclude that the

regional development agency, placed at an appropriate level and having sufficient independence and expertise, was able to behave as a reflexive actor, successfully reacting to possibilities and constraints at both the local and the central level. This may be of crucial importance to its effectiveness in the regional and rural development of South-Transdanubia.

Figure 7. The map of South-Transdanubia



Source: DDRFT Homepage, <www.ddrft.hu>

5.1. South Transdanubia – geography, society and economy - trends and facts¹⁴⁶

The region is situated on the southwest of Hungary, stretching from Lake Balaton to the Dráva and Danube rivers, comprising three counties: Baranya, Somogy and Tolna. It has an area of 14,169 km² and a population of 986,000, covering 15.2% of the territory and 9.5% of the population of the entire country¹⁴⁷. This means a low population density of 70 inhabitants per km², which is 64% of the Hungarian average. However, there are large differences within the region¹⁴⁸. The largest city of the region is Pécs (the county town of Baranya), with a population of more than 200,000 people. Having considerable industry, one of the largest universities in the country and a traditional leading role in the southwest, it provides a natural centre for the development of the region. Another special area is Lake Balaton in the north of Somogy County. It is the most popular traditional holiday resort in the country, every summer attracting millions of visitors from all over the world. In Paks (Tolna county) there is the only nuclear power station in Hungary. It is the largest single industrial employer of the region and provides 52% of all electricity for the national grid. Most of the land in the region is suitable for agricultural production or forestry. Some smaller areas are especially advantageous for the production of fruit and wine. From the rural regional development point of view, the most important features of South-Transdanubia include: its very characteristic rural nature (in terms of population density, settlement system, the importance of agriculture, peripheral location, backward infrastructure); rich potential resources for local development; and great internal diversity (cultural, ethnic, natural, economic) within the regional boundaries. This section explores some of the limiting access type disadvantages and some of

¹⁴⁶ The data used in this section is taken from (KSH 2000) where not otherwise stated. For a detailed account of the region's resources and development needs see the following sources: STRDF 1997/a, STRDF 1997/b, Pannon Egyetem 1999.

¹⁴⁷ Compared to some current EU regions, South-transdanubia is similar: in size to Wales (UK) Lower-Normandy (F) or the Northern region of Portugal; in population to Lower-Normandy or to Aragon (E); and in population density to Andalusia (E) and Scotland (UK).

¹⁴⁸ Due to Pécs and its agglomeration the population density of Baranya county is hardly under the national level. At the same time, population density in Somogy is only 56 persons per km², which is the lowest in the whole country. Population is also ageing, by 2020 the total number of inhabitants is projected to fall by a further 12%.

those internal resources on which the development strategy of the region can be based.

Access- and resource-type disadvantages

Concerning physical access, South-Transdanubia is in a backward situation. The public road- and motorway network is especially underdeveloped. According to the Regional Development Concept (STRDF 1997), 200 kilometres of motorway and more than 1,000 kilometres of first order trunk road should be built to comply with European norms. There is no public airport in the region. However the density of the railway network exceeds EU averages. Amenities (gas, water supply, sewage) are well under the national average and mostly under even the 'rural average'¹⁴⁹. Further factors limiting development originate from the low density and ageing of the population, and the extremely scattered settlement system of the region. Migration tendencies have significantly changed recently. While in the 1970s and '80s the main pattern was urbanisation, driven by industrialisation. Now the population of larger cities is shrinking, whilst that of towns and bigger villages has been growing. Nevertheless, the depopulation of the smallest, most disadvantaged settlements has not stopped. The settlement system of the region comprises 28 urban settlements and 625 villages. Only 15 of all settlements have more than 10,000 inhabitants and they together host 46% of the region's population. At the same time, 482 villages have less than 1,000 inhabitants, representing 84% of the settlements, but only 20% of the population¹⁵⁰ (Pannon Egyetem 1999).

Non-physical access, however, shows a somewhat better picture, at least concerning larger centres. All important business services (such as: international banking, financial- insurance- investment consultancy, trade-mark services, translation, product analysis and quality control) are available within the region, albeit centralised in Pécs.

¹⁴⁹ The average of the regions, without Budapest.

¹⁵⁰ Again, there are significant regional differences. Baranya has the most scattered system, where besides seven cities and towns there are almost 300 small villages, with an average population of less than 600. On the eastern side of the region Tolna's settlement system (together with other features of the economy and society) is more similar to the Great Hungarian Plain, the average village size reaching almost 1.300.

Public administration, regional development institutions and micro-regional structures started to develop in advance of other areas of the country. South-Transdanubia was amongst the first regions to set up a Regional Development Council and the connected Regional Development Agency. It also has had a long tradition in regional programming and benefited from a range of EU and domestic development programmes¹⁵¹. However, regional and party politics and bureaucratic slip-ups have impeded the policy access of the centre to the region, reducing the effectiveness of central development policies (see details later in this chapter).

The region has rather weak resources for competing in the global economy, including low productivity, a lack of capital investment and its traditional economic structure. Agriculture has been of considerable significance still representing 10.8% of the region's GDP (almost double of national average) and employing 12.5% of the labour force. Consequently, the collapse of Hungarian agriculture in the early 1990s had a devastating effect. The collapse of mining industry compounded the difficulties for the regional economy. County Baranya, having a significant mining industry of coal and uranium, was the worst hit by the decline¹⁵². Food processing and light industries were less involved in the crisis, though still suffered significant losses. Thousands of people became unemployed in the region. Most of them with outdated skills and/or poor health conditions had no chance to find another job. The unemployment rate went up to almost 15 % in the early 1990s and it remains one of the highest rates in the country (around 8%). The region experienced a huge economic decline and a fall in living standards. Within a few years, from being one of the wealthier areas of Hungary, South-Transdanubia became one of the most backward ones.

As a result of poor physical accessibility, South-Transdanubia was not very successful in attracting direct foreign investment in the 1990s (STRDF 1997/a). In 1998 the total foreign capital working in the region was 74 billion Forints (€ 285 million). This was

¹⁵¹ Reasons for this advanced situation are manifold, and are discussed below. However, some important factors were: the deep crisis of the early 1990s and the parallel lack of intervention from the central government; and the presence of the Regional Development Centre of the Hungarian Academy of Sciences, as one of the most significant R&D institutions of the country.

¹⁵² The mining industry greatly contributed to the urbanisation of Baranya. In Pécs a whole quarter of the city (named as Uranium City) was built to accommodate the workers of the uranium mine. Twenty kilometres away a whole city (Komló) was built on the coal mining industry. Most miners and many people working in connected industries and services became unemployed during the early 1990'.

the lowest amongst all Hungarian regions, representing only 3% of the national figure. The Balkan wars of the 1990s, which caused a disruption of external relations, the collapse of southern markets and a general feeling of insecurity in the area, reinforced this tendency¹⁵³. Nevertheless, in the past few years certain signs of recovery have been observed. In 1999 South-Transdanubia was one of the most dynamically developing regions in Hungary, with production and sales increasing by more than 24% in the case of business organisations employing more than 50 people. This region produced the highest growth rate in domestic sales (approximately 17%) and the volume of exports reached 135% of the previous year (South Transdanubian Regional Development Foundation 1997/b).

An important characteristic of the region is its natural, economic and cultural diversity. Different areas depending on their traditions, available resources and geographical location found different answers to the challenges of the 1990s. More developed areas, in general, could cope with the crisis better, even after experiencing a deeper decline at the beginning of the decade. Pécs provides a good example for this. It always has been the most industrialised and urbanised area of the region. More than half of Baranya's population live in Pécs and its environs, within a radius of 15 kilometres. The area was worst hit by the decline of mining and heavy industry. Nevertheless, the city successfully converted itself from being a traditional industrial centre to be a modern financial, educational, commercial and service centre. Today 60% of all employees in Baranya work in the tertiary sector. In recent years a range of large international and domestic retail companies have built supermarkets or department stores (TESCO, Metro, SPAR, Praktiker, Plaza). Besides this, Pécs hosts a number of national and international cultural festivals, business exhibitions and conferences. In addition, the city managed to attract most of the industrial FDI's (American, French, Finnish, German, etc.) coming to the region. Multinational companies, such as American Tobacco, Elcoteq and Eimo have their Hungarian or Central and Eastern European headquarters in the city. In recent years the two other sizeable cities of the region (Kaposvár and Szekszárd) have also experienced

¹⁵³ Nevertheless, the Balkan wars also brought some foreign capital investment to the region. A number of affluent Bosnian and Croatian businessmen tried to relocate their capital in southern Hungary, mainly in Baranya county. However, these investments were usually rather small, in services, small retail business or tourism. There was also some military investment undertaken by the NATO Forces.

significant foreign investments by companies such as the NABI Plc (a bus manufacturer); and Videoton, Sanyo and Samsonite (working in electronics and telecommunication). Some smaller settlements, like Mohács, have well developed industrial parks.

Converting their resources into new types of activities or revitalising old ones, some areas therefore had sufficient assets and dynamism to ensure a relatively stable position in the new capitalist economic system. Nevertheless, their success could not revitalise the whole region. Peripheral rural areas hit by agricultural crisis and decreasing industrial commuting had to find alternative ways to cope with the new situation. Some of them - building on their internal resources, domestic and international aid, committed development workers and partnerships of local authorities and civil society - successfully restructured their local economies and began to emerge as winners in the changing regional development structure. Others - lacking resources, connections, co-operation and/or innovative actors in local development - were less successful and went into even deeper decline.

The *strategic regional development concept* of South-Transdanubia (STRDF 1999) in its SWOT¹⁵⁴ analysis lists the following strengths and resources, as the basis for future development: Geo-economic position; a relatively developed multi-functional regional centre (Pécs); natural, economic and ethnic variety; relatively strong weight of the tertiary sector; higher qualified workforce than the average; favourable agricultural features (as a basis for the development of a quality food processing industry); relatively developed market institutions and good human resources; institutionalised international relations and inter-regional co-operation; and willingness for co-ordinated and joint actions in regional development. The *strategic agricultural and rural development (SAPARD) programme* of the region elaborates on the advantages and resources for agricultural production and rural tourism including: the clean state of the environment that allows various development trajectories; agro-ecological and climate conditions that are favourable for special, quality agricultural production; large forests, rich wildlife and biodiversity; strong R&D and educational facilities in agriculture and the food industry; internationally renowned local wines;

¹⁵⁴ Analysis of strengths, weaknesses, opportunities and threats.

attractive landscapes; and considerable thermal and hydrological water resources. The two strategies coincide in emphasising the significance of the emerging institutional structure for regional and rural development and the willingness for co-operation.

An important feature is the relatively well-developed micro-regional structure of the region. As a result of its scattered settlement system, its smaller but coherent cultural and geographic units and its severe development problems, this region became one of the pioneers nationally in setting up voluntary village-associations from the late 1980s. By the mid 1990s these associations covered the entire region, albeit with significant differences between counties. In Baranya, after the collapse of Communism, the leadership of the county was not fond of the voluntary associations. Consequently, they received little help from the centre and had to be self-supportive and autonomous. However, other factors, such as longstanding networks amongst small settlements, interdependence and also some units and personnel of county institutions favoured the development of voluntary associations. Today Baranya has an active, well organised and truly grass-roots system of village associations, often cutting across the boundaries of the centrally designated statistical micro-regions¹⁵⁵. In the two other counties political leadership was less against voluntary associations. Micro regions were more centrally initiated and organised here, resulting in a system consisting of larger less endogenous associations, usually matching administrative micro-regional boundaries.

A range of other factors could be added to the above lists of internal resources, such as: the built environment of towns and villages; cultural traditions, folklore, local cuisines, arts and crafts, with special regard to the ethnic variety of the region¹⁵⁶; thermal springs and natural waters (lakes and rivers) providing possibilities for water sports and eco-tourism. At present, based on the available resources, three basic alternatives (and certain combinations of these) seem to be possible for the development of rural areas in South-Transdanubia:

¹⁵⁵ In fact, in this county there are twice as many voluntary associations as official statistical micro-regions.

¹⁵⁶ As a result of its border location and the population changes of the XXth century, South-transdanubia has the most ethnic variety of the country. Apart from Hungarians, there are Germans, Gypsies, Croats, Serbians, Bosnians, Greeks, and Hungarians from the Northern Carpathians (felvidéki magyarok) and from Transylvania (székelyek) having a distinctive culture, even a recognisable accent.

- In many areas there are very good resources for tourism. This can either mean mass-tourism, as in the Balaton area or rural, green or medicinal tourism in other parts of the region.
- General conditions are favourable for the production and processing of agricultural products. Some areas, blessed with excellent soil and climate conditions and a developed processing industry, are best suited for intensive arable production (mainly the eastern areas of the region). Other areas can specialise in the production and processing of high value-added and high quality special products (wine, fruit, tobacco, cheese, vegetables, organic production, etc.).
- Certain areas around developing industrial and service centres (especially Pécs) are becoming suburban or counter-urbanised settlements, providing homes for well-off families from the city.

Nevertheless, in many places there are serious difficulties constraining these types of development. For example: the expansion of rural tourism can be impeded by the lack of built environment (hotels, restaurants) or environmental degradation; agricultural production is held back by the lack of investment capital, storage and processing facilities, co-operation or good common marketing strategy; and even suburbanisation is often hampered by the lack of basic infrastructure, services and transport. Another seriously limiting factor is the concentration of the disadvantaged gipsy population, sometimes resulting in ethnic tensions and even the out-migration of other social and ethnic groups.

5.2. Setting up regional development institutions

5.2.1. Politics and regional development

As was demonstrated above, South-Transdanubia experienced a sharp economic decline in the early 1990s. However, at the beginning of the decade, it was still relatively better off than other crisis-stricken areas. Being located on the generally more developed western side of the country and having less of a lobbying tradition for

central government resources, the Southwest was not designated as a crisis region within central development policies. While the Northeast was given a lot of domestic and international aid to tackle unemployment and other symptoms of the economic crisis, southwestern counties received little aid from central sources. As the economic situation worsened, this neglect provoked growing resentment both popularly and politically, which helped to galvanise and unite the region. Another unifying force was the Balkan war, which, besides having considerable economic consequences, represented a very immediate threat to the region. It further marginalised the region economically, but at the same time it thrust the region onto the political and military frontline. There were occasional shootings at the border, Serbian military planes in the air and a huge influx of Croatian and Bosnian refugees into Baranya and Somogy.

These problems drew the southern counties together and forced them to start looking for solutions based on internal and external resources and a coherent programme for the development of the region. Four counties (Somogy, Baranya, Tolna and Zala) came together to establish the South-Transdanubian Regional Development Foundation. The advisory board of this institution consisted of representatives of central government, local government, the universities and scientific and economic organisations of the region. This foundation became the forerunner of the subsequent Regional Development Council and began to draw up a strategic regional development concept. Thus, the call of the Act on Regional Policy and Physical Planning (XXI/1996) for the bottom-up establishment of regional level institutions (see 3.4.1.) was welcomed and the South-Transdanubian Regional Development Council (DDRFT)¹⁵⁷ was the first to be established in the country on the 20th February 1997.

The composition of DDRFT was a partnership involving the County Councils; relevant ministerial departments (the Ministries of Environment and Regional Development, Finance, Agriculture, Interior, etc.); the Chambers; representatives of employers and employees; voluntary settlement associations (not the statistical micro-regions); the tourist board; and the mayors of the cities of county-rank in the region.

¹⁵⁷ The Hungarian name is Dél-dunántúli Regionális Fejlesztési Tanács frequently abbreviated as DDRFT. In what follows the South-transdanubian Regional Development Council will be referred to as 'DDRFT'.

The leadership of DDRFT rotated annually between the leaders of the county councils. The preparation of meetings and other administrative tasks were carried out by the county council office of the current chairman. Because of the centrally declared bottom-up and voluntary nature of the regionalisation process, the boundaries of the 'developmental region' were unclear in the early days. The three members of the South-Transdanubian statistical region (Somogy, Baranya and Tolna) at the beginning were joined by Zala County. However, Zala also participated in two other regional development councils (the West-transdanubian and the Lake Balaton development regions) and in 1999 'left the region' definitively.

The first task of DDRFT was to continue the regional programming started in previous years, which finally was completed in 1999. Nevertheless, the process of institution building and the development of regional identity were only really given momentum in the following year, with the establishment of the South-Transdanubian Regional Development Agency (henceforth the Agency). The setting up of the Agency was directly influenced by the EU, when South-Transdanubia became a pilot area of the PHARE Regional Development Pilot Action Fund. This fund and the two consequent programmes were set up by the EU, to facilitate the development of regional structures. Because of the strict administrative demands of the standard PHARE procedure, the preparation and the management of the programme required a stable official institution with professional staff. As a result, on the 1st July 1998, the Agency was established by the DDRFT. Besides the management of the PHARE programmes and the provision of the administrative needs of DDRFT, the co-ordination of regional programming and a range of other important tasks (basically the implementation of the decisions of the Regional Development Council) became the responsibility of this new institution. Such an institution and the fact that the Regional Development Council had growing responsibilities and resources to distribute, gave a considerable momentum to the development of regional structure and identity. However, with its growing importance, DDRFT and the debates on development strategies became an arena of party politics and rivalry between the counties, cities and personalities involved.

Pécs is the largest city of the area and a natural multi-functional centre, having good resources for development. However, it was the worst hit by industrial decline in the

1990s. Therefore it could logically have expected significant development resources once the restructuring of the region had started. Realising the potential possibility and utilising its influence and resources, Pécs took a leading role at the beginning of the regional development process. A sign of this was the establishment of the Agency in Pécs, as a result of the city's lobbying and providing significant financial resources for it. After this, most meetings and important events were held there and, for a variety of reasons, a significant proportion of the resources of the subsequent PHARE programmes were distributed in Baranya County. As a result, Pécs was obviously in a good strategic position for regional development (hosting the implementing agency and two out of the three regional think tanks that were preparing the programme) when central aid finally arrived. Other potential geographic areas, seeking development resources and realising the importance of these issues afterwards, thought this situation to be unfair.

The 1998 general and local elections brought some important changes in the regional political balance. The main winners of both elections (national and local) were the right wing coalition of the FIDESZ, Hungarian Civic Party and the Independent Smallholders' Party. While the political leaders of Tolna and Somogy (the presidents of the county councils as well as the mayors of the county capitals Szekszárd and Kaposvár) belonged to FIDESZ, both main leaders of Baranya belonged to the opposition, the Hungarian Socialist Party (MSZP) who had lost the last election. These changes increased the tension in the arena of regional politics and significantly weakened the position of Baranya (and Pécs) in the Development Council. Nevertheless, the main rivalry within the Council was not between the counties but the two main cities of the region - Pécs (the county town of Baranya) and Kaposvár¹⁵⁸ (the county town of Somogy) and between their respective mayors who had different political orientations and different visions about the future of the region.

¹⁵⁸ Pécs's main traditional competitor is Kaposvár, the second largest city of the region. It has an agricultural university, processing and light industry and significant cultural and economic traditions. The mayor of the city was one of the main figures of the FIDESZ, which gave him considerable political influence. He claimed that Pécs had an unfair weight in regional development and Kaposvár should become at least an 'associated centre', and have more significant share from central development resources. The third sizeable city, Szekszárd is a small provincial city with a population of 35,000, having little industry and no university. The main industrial basis of the county is the nuclear power station, but it is in an even smaller city and has hardly any connection with the rest of the

In 1999, the modification of the 1996 Regional Development Act reinforced the politicisation of regional development in South-Transdanubia¹⁵⁹. As a result of the new legislation, central government, dominated by right wing political forces at that time, had an absolute majority in the DDRFT¹⁶⁰, as everywhere else in Hungary. In the summer of that year, the rivals of Pécs seized their opportunity. The first step was changing the priorities of the regional development concept that were being finalised at the time. In spite of all previous harmonisation and the consensus achieved by experts, the Council did not accept the programme without significant amendments. As a result, the new motorway will not be routed near to Pécs; and investments to build a regional conference and business centre will be undertaken in Kaposvár, instead of Pécs. As the second step, in 2000 the restructured DDRFT appointed Kaposvár as the primary centre of the region and the headquarters of the Regional Development Agency. The regional centre of the SAPARD Paying Agency was also established in Kaposvár. The third and final step was to change the directorate of DDRFT. The former rule of the rotation of the presidency was set aside and a permanent president (the leader of county Tolna) was elected, preventing the future re-emergence of the previous status quo.

Consequently a peculiar situation occurred. The 'natural centre' of the region, possessing the most human, financial and cultural resources, lost its influence in the Regional Development Council and was 'left out of the game'. However, most of the knowledge and the R&D infrastructure for regional development were located in this

county's economy. Consequently, Szekszárd had insufficient influence or resources to take part in the competition with the other two cities.

¹⁵⁹ The new composition of DDRFT included: presidents of the three county councils; mayors of the three main cities; three representatives of voluntary development associations (one from each county); president of the regional tourism board; local representatives of 10 ministerial departments (MARD; Interior; Environment; Economic; Transport Communication and Water Management; Social Policy; Health; Education; Youth and Sport; Finance). Besides these, the chambers and some other relevant local organisations are observers at the meetings, but without the right to vote.

¹⁶⁰ The influence of party politics was reinforced by the new system in several different ways. In the new councils the number of the voluntary development associations' representatives was reduced, and the representatives of the chambers, employers and employees were left out completely. These representatives were tend to be politically neutral. The representatives of government departments in the former system were members of the central bureaucracy, often more interested in technical questions than in party politics. In the new system half of the members of the Development Council are the representatives of central government departments. However, they are not central bureaucrats, but regional actors, chosen and appointed mainly according to their political commitment.

city¹⁶¹, together with the main development institution of the region (the Agency). According to some opinions, this politically charged outcome disrupted the regional development process and the evolution of its institutions, foreshadowing an uncertain future for the whole region. Others said that it only prevented the most powerful regional centre from absorbing most external development resources and leaving the rest of the region behind. The 'truth' from a regional development perspective is probably somewhere in between these two opinions. The potential problem for a rural development approach comes from a slightly different source. While Baranya County undoubtedly has the most powerful and vibrant economic and cultural centre, it also has the most scattered settlement system and some of the most disadvantaged rural areas. The rivalry between the two major cities could result in the upstaging of Baranya as a whole (or another county, if the political situation was to switch again), and it would reinforce the predominance of short-term political interests and forces instead of long-term rationality in the shaping of a coherent development strategy. The main losers would not be the competing cities, but the underdeveloped rural areas.

Nevertheless, besides political issues causing uncertainty and distraction, there are a number of different factors bringing stability and a high level of continuity to the system. Some of these arise from external (mainly EU) requirements, such as the medium- and long-term programming or the obligation to carry out existing development programmes. Others, representing an institutional perspective, come from the continuity of bureaucratic institutions and the human resource base for development at the regional level and below. Political directions can change overnight. However, the officials implementing policies, experts in scientific institutions or university departments and even more so their working networks, which are essential to plan and carry out policies, usually change very slowly (if at all). The third continuity comes from the grassroots, from: development associations; local village governments; NGOs; small businesses; local practitioners; and the network of these and the rural society in general. These can learn and adapt to external

¹⁶¹ For example, the large university with a specialist regional development department; the Centre for Regional Studies of the Hungarian Academy of Sciences, and a number of scientific and commercial laboratories and companies.

requirements. However, their approach and basic interests are unlikely to change quickly. They are usually able to find a way to do things according to their interests, sometimes penetrating or even altering external requirements and possibilities. Through networking and lobbying, local associations may also get sufficient political power to influence policy design and the allocation of development funds. The following section explores some of these factors underlying continuity.

5.2.2. Regional programming

The main task of the DDRFT, besides allocation of development funds, is to harmonise interests and to make decisions concerning short- to long-term, strategic and operational programmes for the region. This programming is a complex and difficult task. Apart from reaching a political agreement between the counties, the programmes have to fulfil two quite different sets of requirements. On the one hand, they have to consider the region's internal resources; the efficiency of the existing development structure and institutions; and the needs and expectations of rural localities, development associations, economic interests and civil society. On the other hand, they have to be realistic, keep in mind the availability of external resources and fulfil the increasingly strict requirements of central domestic and EU programmes. In other words, regional programming is one of the important arenas to translate between the central and the local systems of development. It is also important for the harmonisation of varying local interests.

The 'Complex Development Programme of South-Transdanubia (referred to below as the Programme) was accepted by the DDRFT on 29 June 1999 and has formed the basis of all the other programming documents since then. The production of the Programme was commissioned by DDRFT, financed by the Ministry of Environment and Regional Development (MERD) and co-ordinated by the Agency. The work was carried out by a consortium, based on the R&D resources of the region and led by a Budapest based consultancy¹⁶².

¹⁶² The members of the consortium were the followings: AACM Central Europe KFT; Janus Pannonius University of Pécs; Hungarian Academy of Sciences Centre for Regional Studies, Pécs; and the Animal Rearing Faculty of the Pannon University of Agronomics, Kaposvár.

The programme sets short-, medium- and long-term objectives and breaks them down into operational programmes, identifying the financial resources for them also. It aims to harmonise the use of internal and external (EU and central domestic) resources for the development of the region, concentrating on realistically attainable objectives for the near future, but having an impressive vision in the medium to long term. The four main priorities are: 1) the improvement of the physical accessibility of the region (regional airport, road network, etc.); 2) the development of human resources, in order to increase the competitiveness of the regional economy (to improve universities, R&D facilities, and employment possibilities for partially disabled people); 3) the improvement of economic competitiveness through the development of small and medium size enterprises (SMEs); 4) the development of the tourism industry (thermal-water resources (medicinal tourism), and within this the development of tourism-marketing strategy for the region and the establishment of conference and exhibition centres.

The six remaining objectives include: the development of business services; different areas of the agricultural sector (production of vine and beef, organic agriculture, marketing, etc.); regional marketing; institutional development for the preparation of EU accession; development of regional identity and a coherent marketing strategy; the complex development of the Lake Balaton area. The programme set to bring these objectives into operation. However, it could not identify available financial resources for their realisation.

According to the opinion of experts and practitioners, the 'Strategic Development Concept of South-Transdanubia' is a well-prepared document, carving out a relatively feasible strategy for the development of the region as a whole. However, its concern is essentially regional rather than rural development.

5.2.3. Two programmes – constructing regional and rural development

The 1995-99 PHARE Multi-annual Indicative Programme (MIP) allocated € 35 *million* to support the creation of regional development structures and policies in Hungary. The programme had two main objectives: general capacity building for rural, regional development at central level; and the realisation of two pilot

development programmes, to test the institutional system in a 'live experiment'. To achieve the first objective, five sub-programmes were designed including: employment of EU officials as twinning experts; establishment of a 'young expert programme'¹⁶³; a regional statistical institutional system; improvement of the relevant financial and administrative systems of the Treasury; and the financial support of regional programming. Different elements of the programme were intended to build on each other and achieve synergistic effects. For example: the regional statistical system was planned to provide input for regional programming, and regional programmes for designing the pilot development projects. Twinning experts were supposed to help to establish a taskforce for regional development within the responsible ministry, but were also expected to help to work out the design of the pilot programmes.

For the second objective the EU PHARE Regional Pilot Action Fund was set up and pilot development programmes were supported in two subsequent phases¹⁶⁴. For the first phase, the PHARE 1996 budget offered € 8 million with only a loose guideline for implementation¹⁶⁵. It was the shared responsibility of the Ministry of Environment and Regional Development (MERD) and the Hungarian Regional Development Council to set the objectives and work out the detailed implementation of the subsequent programmes. Details had to be agreed by Brussels and, concerning this, operational contracts for both programmes had to be signed before allocating any EU

¹⁶³ For the 'young expert programme' 14 young professionals were chosen by the Regional Development PHARE Office. They received a monthly stipend and personal tutors, had various training programmes and the opportunity of getting experiences in public administration, EU matters and in regional development in general. The aim of the programme was to educate young professionals in an European style for the developing public administration.

¹⁶⁴ The first phase was subsidised by the 1996 PHARE budget and had the code HU9606; and the second phase, supported from the 1997 PHARE budget had the code HU 9705. The two phases of the programme will be referenced below as 'PHARE 1996' and 'PHARE 1997' programmes subsequently.

¹⁶⁵ For example: pilot areas had to be appointed; money had to be channelled through the new regional development institutions, established by the 1996 Act; the programme had to apply the philosophy and the basic principles of the Structural Funds (partnership, participation, subsidiarity, additionality, etc.); and the administration of the funds had to comply with the rules of the general PHARE procedure.

resources¹⁶⁶. The final details of implementation (setting particular objectives and preferences adapting the central guideline to the regional strategy) were given by the Regional Development Councils concerned. The same Councils were responsible for implementation and financial management, under the supervision of Hungarian Regional Development Council.

The first phase (PHARE 1996)

According to the programming document, the main aims of the PHARE 1996 programme were to improve and demonstrate the effectiveness of regional development structures and to build regional identity. To achieve this, two regions (the South-plain and South-Transdanubia) were chosen as pilot areas. They both already had some traditions in regional programming and were likely to become eligible areas for Structural Fund support after EU accession. Under this programme, partnerships of local authorities, educational and research institutes, chambers, businesses and/or NGOs with complex projects could apply for a contribution to their investments and human resource development. Every applicant had to fulfil the following criteria:

- projects had to be innovative and experimental;
- they had to be economically viable and able to sustain their positive effects in the long-term;

¹⁶⁶ The procedure was the following. Brussels made an offer in the multi-annual indicative budget, concerning all PHARE resources to be allocated in Hungary. This was followed by National Framework Contracts, separately for every year, between Brussels and the Hungarian government, fixing the main rules and the directions of resource allocation. After this the different programme sections had to be worked out by the sectoral ministries. Their PHARE offices (every ministry has one) prepared work programmes for the coming year, fixing all the details of implementation that should be agreed first by EU Delegation in Budapest, then by the relevant DG of the EU Commission. This had to be followed by a contract between the competent Hungarian ministry and the EU Delegation. Only this contract could open the way for the money transfer. In the case of the HU9606 programme, the National Framework Contract was made in spring 1998. This fixed the allocated amount for South-transdanubia and the main directions of the programme. After this, the Regional Development PHARE Office worked out the details for implementation including the format of the contracts to be made with the beneficiaries. The launch of the programme was based on this document. However, the EU did not accept it until the following year. The procedure was repeated for HU9705 again, with considerable delay. This caused problems for the implementation of both programmes (see the analysis below).

- their influence had to be of a regional significance (preferably involving all the counties);
- they had to be based on wide partnerships, containing at least two major institutions (institutions, that is having regional importance).

The projects also had to comply with the objectives of the regional development concept and with the standard procedural requirements of the EU Structural Funds (including additionality, sustainability, partnership, etc.). For administration and accounting the standard PHARE procedure was obligatory. Non-profit projects could receive a maximum of 75%, while profit-oriented ones could rely on only a 25% contribution to their investments from PHARE. Public money could not exceed 50% of the value of the whole programme. The decision-making procedure evaluating applications, following the EU's advice, was meant to be an interactive process. During this, after choosing the potentially winning projects, Regional Development Councils were supposed to negotiate with the applicants, harmonise their plans and formulate not more than ten large, integrated project packages. These were thought to be more effective and easier to administer for the centre than many small projects. Centrally-designated eligible aims could be in the fields of economic development and tourism; environmental protection; culture and education; rural development; job creation; regional marketing; small infrastructure and preparation of larger infrastructural investments. For the management of the programme, regional development councils were required to set up development agencies. According to the recommendation of MERD, these agencies had to employ a director, two project managers and a young expert (trained by the young expert programme) and one delegate from the ministry. During the whole procedure, EU and domestic PHARE experts, the National Regional Development Council and the Regional Development PHARE Office were supposed to help the work of each agency.

According to the decision of MARD, € 4 million was allocated to South-Transdanubia, which, supplemented with 25% domestic funding (compulsory under PHARE), amounted to more than HUF 1 billion. This amount is not huge in objective terms; however, given the desperate lack of money and the catalytic nature of the programme, it could be expected to act as a significant pulling factor for the emerging regional development system. Four main areas of action were available for project

applications (these were called 'the four windows' of the programme) including: integrated development of rural areas; improvement of the competitiveness of SMEs; exploitation of tourism opportunities of the region; regional marketing and attraction of foreign direct investment (FDI) into the region. The DDRFT accepted the programme on 18 June 1998 and launched the competition for applications (in local and regional newspapers) at the beginning of the following month. At the same time, the South-Transdanubian Regional Development Agency was established and its director took office. From then on the Agency carried out organisational and administrative work related to the PHARE pilot programmes.

In spite of the short deadline, the programme raised significant interest in the region. Altogether 72 applications arrived, representing a project value of 4.7 billion Forints, almost five times over-subscribing the programme's budget. However, only 45% of this was requested as support, the remaining 55% was the applicants' contribution to the projects (called the 'own share'). Following the evaluation of the applications and the preparation work of experts, the DDRFT selected the winning projects speedily, on 18 October. Most projects were classified to be appropriate for support. However, because of the limited financial resources more than half of them had to be set aside. These were expected to compete again in the following year's PHARE competition, or to get support from other sources if any regional development funds were to become available. After the Development Council's decision, according to the procedure specified by the PHARE experts, the Agency started to negotiate with successful applicants. According to the four original objectives, four major project groups were identified. Individual projects were modified and harmonised with each other in order to formulate the four large, complex, regional sub-programmes. During winter and spring 1999, the Agency made preliminary contracts with the applicants. Tender documentation, with the help of the Agency and PHARE experts, started to be prepared.

However, by that time the operational contract between Budapest and Brussels (see above) had not been signed, meaning that implementation details were not accepted

by the EU¹⁶⁷. Consequently, there were no payments coming yet and it was uncertain if the preliminary contracts were going to be finalised and if the whole procedure would be accepted at all. Finally, the operational contract was signed only in July 1999 more than a year after the actual launch of the programme. Compared to the expectations on the basis of which preliminary contracts had been made with the beneficiaries, two major changes concerning implementation occurred in the final version: the idea of combining small projects into big complex sub-programmes was dropped; and it was not possible to support profit oriented projects. As a result, much of the preparation of the previous year (contracts, tenders) was lost. The deadline to sign the modified contracts with the beneficiaries was very tight. However, with some extension from the EU, it was completed in September. This left less than a year for the realisation of the projects (to prepare the tenders, to agree with the contractors, to buy and build everything and to do the accounting and monitoring), which were due to finish in August 2000. Finally, PHARE gave extensions again. By the summer of 2001 all projects had started and by the following year much of the project money, some HUF 2 billion (EUR 8 million), was successfully spent¹⁶⁸.

Table 8. PHARE 1996 (HU9606) Programme – important facts and dates

December 1996	Brussels launches the 1996 PHARE Regional Development programme and offers the multi-annual indicative budget for the PHARE Regional Pilot Fund.
Spring 1998	National Framework Contract for the PHARE 1996 (HU9606) programme between MARD and DG Agri is made, and EUR 4 million EU aid is allocated to South-Transdanubia.
February 1998	The DDRFT is officially established
18. June 1998	DDRFT accepts the PHARE 1996 programme; establishes the Agency and appoints its Director.
1. July 1998	The PHARE 1996 programme is launched in South-Transdanubia, applications are accepted until the 1 st of September. Finally 72 plausible applications arrive, almost five times oversubscribing the programme's budget.
18. October	DDRFT decides about the applications, 35 projects get support, the beneficiaries expect to access their money within a few months. However, since

¹⁶⁷ There were several reasons for the delay including mistrust and repeated communication failures between officials in Budapest and Brussels; significant changes in the Hungarian administration; insufficient information flows; etc.

¹⁶⁸ Some applicants abandoned their projects, so the value of their support could not be spent and had to be paid back to the central PHARE budget.

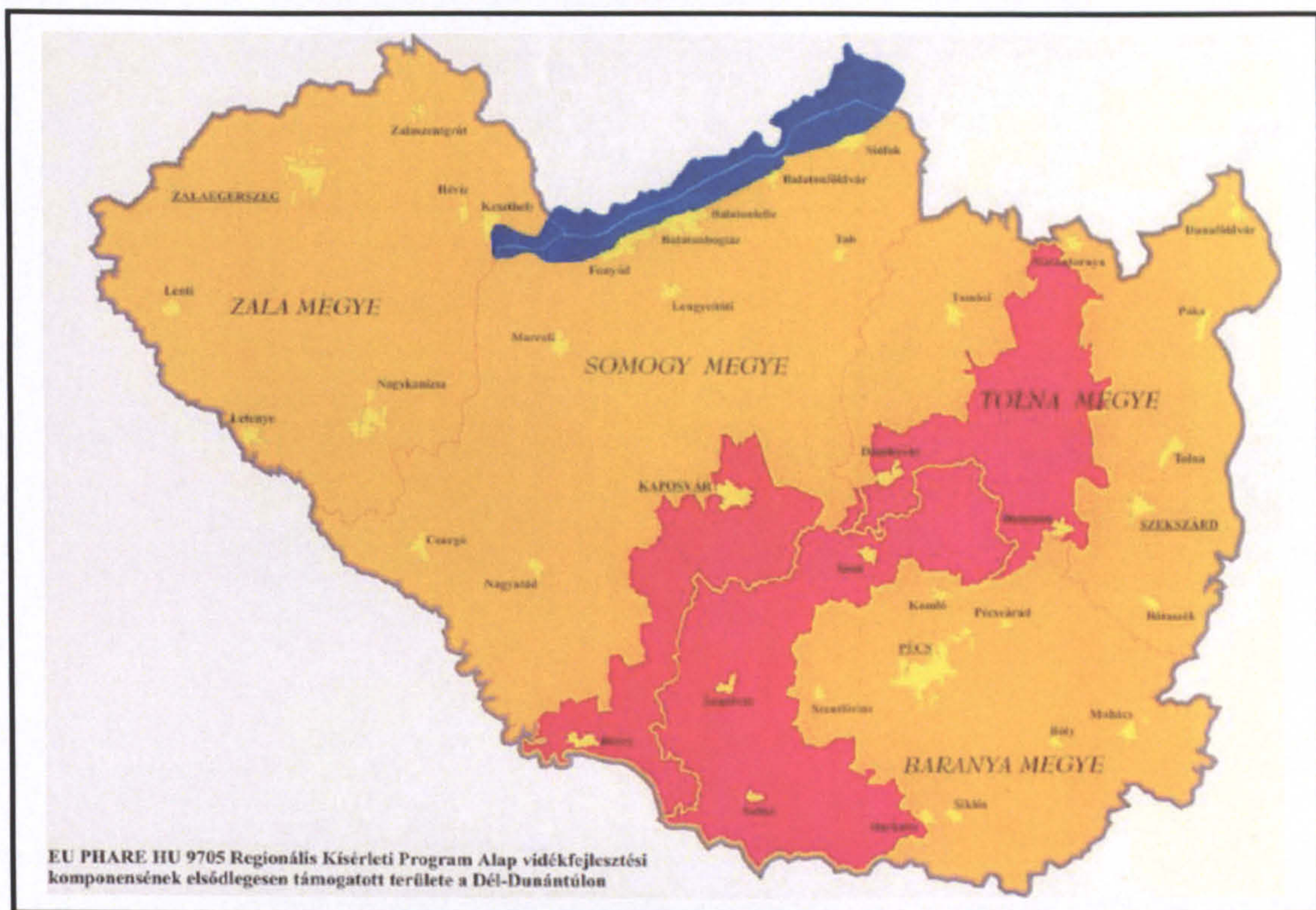
1998	the Operational Contract between MARD and the Commission is still missing, the programme cannot really start and even future conditions are uncertain.
Spring 1999	The Agency makes preliminary contracts with the beneficiaries, based on the guidelines given by the National Framework Contract, to save some time for the realisation of the projects. Four large project groups are also created. (However, these preliminary contracts and other organisations finally turned out to be mistaken, as a result of the changing rules.)
July 1999	The operational contract is finally signed, leaving less than a month to make the final contracts with the beneficiaries. Though, the deadline is extended.
30. Sept. 1999	Final contracts are made with 54 beneficiaries, tendering procedures start.
30. August 2000	The first, but extended closing deadline of the whole project.
30. June 2001	Closing of the PHARE 1996 programme, with EUR 8 million (EU aid together with the domestic and the beneficiaries' own share) was spent in 47 projects.

The second phase (PHARE 1997)

For the next round of the programme (HU9705) the EU multiplied the programme money. Euro 34 million was allocated by the 1997 PHARE budget. South-Transdanubia was a pilot area again, with € 5.05 million allocated here for rural regional development¹⁶⁹. This, with the 25% domestic contribution amounted to HUF 1.6 billion. PHARE gave similar guidelines to the previous year; nevertheless, the programme became significantly different in South-Transdanubia. Besides continuing the development of the general resource base of the region, the main objective this time was to test a spatially concentrated rural development programme, based on principles of the Structural Funds. The reinforcement of local development structures also was an important aim.

¹⁶⁹ Euro 22 million was allocated to the North-east, for industrial restructuring, labour market measures and rural development. South-transdanubia received Euro 8 million altogether. Besides HU9705, a micro-credit program and a complex educational program package were supported from these resources.

Figure 8. Designated areas for the rural development component of HU9705



Source: DDRFT Homepage, www.ddrft.hu

Three sub-programmes were designed. Two of these were available for the whole region: a structural industrial development programme with a value of HUF 300 million (for the development of industrial parks) and a human resource development programme (supporting networks of universities, research institutes and other governmental organisations) with resources of HUF 200 million. The main part of the programme, however, using HUF 1.1 billion, had a territorial concentration within the region. It supported complex rural development in three small peripheral rural areas running along the border area of the three counties (see Figure 8). The rural development section had ‘five windows’ this year with considerable differences in resource allocation:

- the development and marketing of new rural products (HUF 175 million);
- rural tourism (HUF 250 million);
- new forms of co-operation (HUF 250 million);
- afforestation (HUF 125 million);

- innovative community development (HUF 125 million).

Based on the previous year's experience, there were some significant changes in the rules and the procedures of the rural development section. Instead of a region-wide effect, projects only had to demonstrate their innovation and effectiveness in solving the problems of a smaller locality and the conduciveness of their solution to the rest of the region. Financial rules were similar to the previous year; however, the ratio of available support was different for non-investment type spending (buying services). Non-profit projects had to provide at least 10% and profit-oriented projects at least 20% of their budget, which is a very significant reduction compared to the first phase. It was still forbidden to pay wages from PHARE money, but 5% of the budget could be spent on administration, and, from their own resources (additional to the full budget of the project), every applicant had to employ a project manager for the whole duration of the project. Seminars and other forms of information exchange between the projects were built into the programme. For some beneficiaries of the 'community development window' the programme also offered resources to build contacts with some LEADER II groups in the EU and to seek advice and experience with regard to sustainable rural development and the use of EU resources. The formulation of large project-groups was dropped from the procedure, but the expert committee and the decision procedure remained essentially the same. Through a wide social dialogue the objectives, implementation procedures and the application form was discussed with potential applicants and harmonised with the needs of the targeted rural localities (see details in the next section).

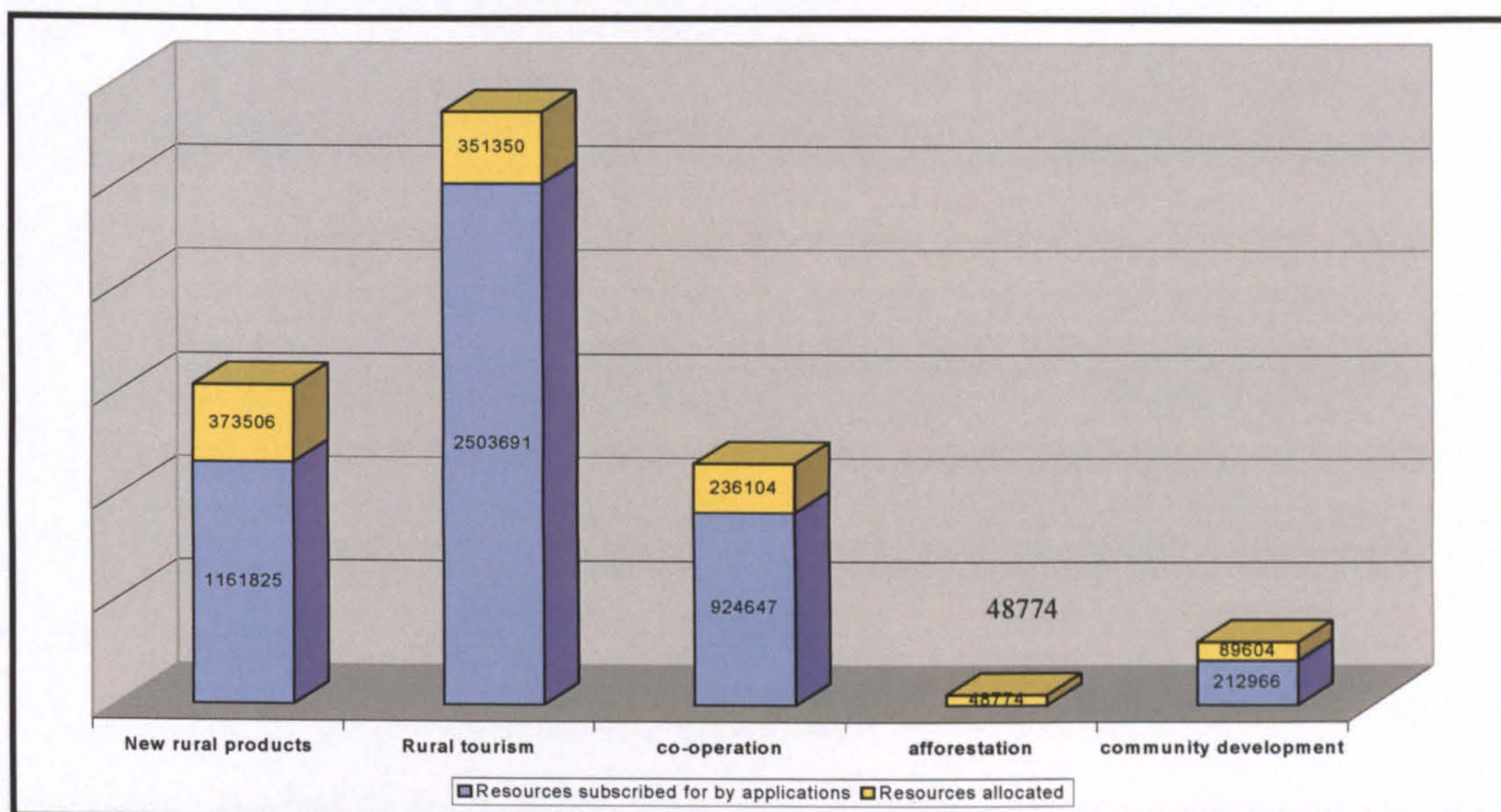
The second phase (PHARE 1997) programme was launched on 4 March 1999, leaving five weeks to prepare the applications. It raised even greater interest in the region. Altogether 169 applications were handed in, 6.5 times oversubscribing the available resources. For the rural development section 129 applications arrived, 52 of which were to be supported by the programme. There was considerable variation in the interest generated by the different 'windows' (see Figure 9). The rural tourism initiative was the most popular in terms of the value of support required - more than half of the applications received were for this measure. At the other extreme was the measure on afforestation, for which less than half of the available resources were subscribed for. The PHARE experts amended the budget and redistributed significant

amounts between measures, giving the main preference to the measure on the development and marketing of new products. The DDRFT made its decision on the first of June and consultations with the beneficiaries and the preparation for contracting commenced. However, preliminary contracts or tender documents were not made this time. The reason for this was that neither the first phase nor the second phase operational contracts had yet been signed and the procedures and implementation details, which were going to be required by Brussels, were still not clear. The required operational contract for this year was not signed until Spring 2000. Contracts with the beneficiaries were made in June and the preparation for tenders could only begin by then, leaving only a few months for the realisation of the projects until the scheduled end of the programme in December 2000. However, Brussels gave a further extension. In Summer 2001, the tendering was still proceeding and hardly any money had been spent under the programme. By the beginning of 2003 the programme was practically complete, except for the evaluation. Some HUF 2 billion (EUR 8 million) was successfully spent altogether.

Table 9. PHARE 1997 (HU9705) Programme – important facts and dates

February 1997	Brussels launches the 1997 PHARE Regional Development programme and offers the second multi-annual indicative budget for the PHARE Regional Pilot Fund.
4. March 1999	The PHARE 1997 (HU9705) Programme is launched, with a budget of EUR 8 million (5.05 of which was EU aid).
15. April 1999	By the deadline 169 valid applications are received, oversubscribing the budget 6.5 times.
1 June 1999	DDRFT decides about the applications, 52 projects are supported. Preparation for contracting beneficiaries starts, however, preliminary contracts are not made this time.
Spring 2000	The operational contract between MARD and DG Agri is signed. (Finally 46 contracts were made, 6 groups dropped out.)
June 2000	Contracts with the beneficiaries are made and tenders started to be prepared.
December 2000	The originally scheduled ending date of the programme - extended several times.
Sept. 2002	Final deadline for the tenders.
February 2003	The practical completion of the programme (except evaluation). Altogether EUR 8 million was spent and 46 projects were completed.

Figure 9. Subscribed and allocated resources under the rural development component of HU9705 (Thousand HUF)



Source: DDERF Homepage, www.ddrft.hu

5.3. Rural development and the role of the Agency

In this section I intend to explore how local and extra-local factors can be harmonised and different level development systems can be connected by a regional development agency. This will be assessed in the framework of a pilot development programme, designed and implemented regionally, but subsidised and influenced by the EU. There are several important dimensions to explore. Some of them concern the development of the Agency; others the implementation of an experimental EU funded rural development programme under Hungarian circumstances; yet others the formulation of a regional level political and institutional context for integrated rural development. These dimensions are interconnected, having multiple interests and hidden agendas influenced by politics and the personalities of the human actors participating in them.

First, the evolution and changing role of the Agency in the regional context is described. The next section explores how the Agency acted as a mediator for the PHARE Regional Pilot Action Fund (between local development associations and EU administration) and in the arena of regional politics (between counties and different political interests). The issue of mediation is investigated in two different arenas. The

first is the regional development arena that illustrates horizontal mediation. Here I show how expertise and bureaucratic preparation helped the Agency to overcome political tensions and rivalry for development resources within the region. The other is the local development arena, illustrating vertical mediation. Here I explore in what ways the Agency could manage to connect central and local systems of development under the framework of the PHARE pilot development programme. Finally some conclusions are made on the reflexivity of the Agency and its role during the implementation of the PHARE programme.

5.3.1. The evolution of the Agency

Setting up a regional development agency was one of the main prerequisites of the PHARE pilot action programmes (discussed above). At the same time, a well working agency, serving as a solid institutional base for regional development, was also thought to be one of the main outcomes of the programme. In South-Transdanubia the Agency was established at the time of launching the first phase of the programme, and it grew together with the tasks required by the PHARE Regional Pilot Action Fund. For the establishment of the Agency, Baranya County offered premises, some financial resources and had its own candidate to become the director. Their candidate, a middle age lady (referred to below as the Director), had been working in different areas of rural regional development since 1983. Amongst others she was managing the late 1980s' rural regeneration programme for the county. Then, from 1990 she was responsible for helping the voluntary village associations within the county government office. Before assuming the position in the Agency, she led the Baranya County Development Agency and, in fact, for half a year she was doing both jobs in parallel. She only had a few weeks to find colleagues and establish an office before the deadline of the first round of the PHARE programme. Although she had worked in regional development for a long time and obviously had many contacts, she tried to find open minded, even if inexperienced, young people with language skills and the ability to learn. Therefore, besides a secretary, two young men, just graduated from the department of economics at the University of Pécs, were chosen as the first project managers. In November a young woman, one of the Director's former colleagues joined the Agency. This was the core team when I first met them in December 1998.

However, with the developing PHARE programmes, regional programming and the more frequent meetings of DDRFT, this team soon turned out to be insufficient to fulfil the growing tasks. First, a member of the PHARE Young Expert Programme (see above) and a representative of the Budapest based PHARE Regional Development Office joined the Agency. Then another project manager (a young woman) and a part time accountant were employed. The employment strategy of the director remained the same, she was looking for young professionals, just leaving university or doing postgraduate studies in regional development or related areas. Their background ranged from economics, law, art and languages, to sociology and engineering¹⁷⁰. The next major extension, with the employment of another secretary and four more project managers took place just a few months later in summer 1999. The contracting and tendering of the first, and the selection procedure of the second, round of the PHARE programme had to be managed simultaneously. The preparation of the Regional Development Programme was being finished and the SAPARD programming procedure also began at the same time. Thus, the Agency was rapidly expanding, though tasks were growing even faster. There had been a shortage of labour, infrastructure (telephone lines, computers, etc.) and office space from the beginning. Nevertheless, the expansion of the Agency was not without problems. In the early days, steering and control was solely in the hands of the Director. The staff was inexperienced, issues were relatively simple and not too numerous. The whole office was in a learning stage, everybody was dealing with all sorts of issues and there was no need for an institutionalised form of information exchange or supervision yet¹⁷¹. A year later, after several expansions, the Agency reached a size, when it could no longer be operated in this way. Issues became complex, the Director had to spend a significant part of her time away, with lobbying and negotiating and there were

¹⁷⁰ The average age of the employees of the Agency was well under 30 years, which is highly unusual for a public institution in Hungary. The working style was also very different from usual bureaucratic agencies. Most people had unbound working hours, which could mean free days or mornings when they were needed (going to university for example), but very long working days in peak times (before deadlines or Council meetings).

¹⁷¹ My first task in November 1998 was to deputise for the secretary of the Agency for a couple of days. I was picking up the phone, sorting post and faxes and receiving and guiding visitors. I gathered two important impressions that time. One of them was the huge diversity of people who called and the variety of issues they made inquiries about. The other one was that almost every phone call and inquiry arrived for the director. Half a year later, when I was the secretary again for a few days, there was a striking difference in the latter. Project leaders, beneficiaries, sometimes even calls from MARD or the central PHARE office were usually not asking for the Director, but for the relevant project manager.

simply too many people in the office to be controlled in the old informal way. A reorganisation of tasks and information flows was needed and finally accomplished; however, it took time and caused some hitches in the work.

Besides organisational issues, another recurring problem was to obtain sufficient resources to finance the work of the Agency. The initial capital, provided by DDRFT, was HUF 4 million; however, this amount had to remain untouched. The yearly budget, provided by MERD for the expenses of the Agency was HUF 800,000. That was less than the salary of a single project manager. Some expenses were provided by DDRFT and the three participating counties. However, most of the facilities and the running costs had to be obtained by the Agency itself. One way of doing this was to charge the beneficiaries of the (EU and domestic) regional development programmes and this represented a significant part of the Agency's budget. To cover administrative expenses, all applicants had to pay one percent of the whole project value to the Agency. Unsuccessful applicants could claim back half of this amount. The Agency also received payments from DDRFT for different tasks, such as the co-ordination of regional programming. As the Agency was originally established as a public utility company¹⁷², it could also do consultancy work, giving professional advice for potential applicants, for example. Another way of getting resources was applying to EU foundations. For example, they won most of their computers and other office equipment on a PHARE application, in addition to some resources for human resource development and for working out a regional marketing strategy. Taking part in the co-ordination of internationally funded programmes, such as the PHARE Cross Border Co-operation Programme (CBC) or the EU INTERREG Programme, brought additional financial resources. Therefore, though the Agency was initially founded and funded by DDRFT, it could (and had to) rely upon a number of different sources of finance afterwards. This subsequently became very important for establishing and maintaining a relatively independent status within the uncertain environment of changing political and institutional circumstances (see below).

¹⁷² Its status was somewhat similar to quasi-autonomous non-governmental bodies (QUANGO-s or NDPB-s) in Britain. It was organisationally independent from DDRFT, however, most of its premises, facilities, and commissions came from this organisation.

The year 1999 brought external threats and uncertainty for the Agency. Both PHARE programmes were launched and preliminary contracts had been made with the beneficiaries of the first round. Some of them had already started to spend their own money on the projects and were originally promised to get the first payments from PHARE six months before. At the same time, none of the required operational contracts between MARD and the Brussels Delegation had been signed and a chance for agreement was not even in view yet. Without this, the programme could not start; however, a strict deadline for spending the money had previously been set by Brussels. Therefore, at this time the PHARE Regional Pilot Action Fund, which was the main source of legitimacy for the Agency's creation, was quite likely to become a failure. This could have meant disillusionment and a complete loss of public trust for the Agency and its employees.

Year 1999 brought further challenges. As a result of previous changes to the regional development legislation, DDRFT was significantly amended, its leader was changed and the headquarters of the regional development agency was relocated from Pécs to Kaposvár (see 5.2.1.). The latter decision, according to the opinion of many regional actors, could have threatened the very existence of the Agency and the accomplishment of a range of ongoing programmes. However, it was clear that realistically such a decision could not be practically accomplished. The two cities are some 70 km from each other, with poor road and train connections making commuting almost impossible. The Agency and its employees were deeply rooted in the area of Pécs and were relatively independent from the DDRFT. They could not be threatened with cutting off their resources or by being dismissed¹⁷³. At the same time their accumulated experience, expertise, understanding and connections could not be replaced overnight. Nobody else could ensure the accomplishment of PHARE Regional Pilot Action Fund and the Regional Development Council could not afford to risk a failure. Therefore, since the Agency did not want to move and could not be replaced, the status quo remained in spite of DDRFT's political decision. Based on a

¹⁷³ When the future was uncertain for a while, the leaders of the Agency were considering becoming a fully independent foundation or commercial consultancy in the field of regional, rural development and spatial planning. They were in a very strong position, having special knowledge, expertise, connections and a booming market environment. Therefore they were quite confident in negotiating with regional political interests.

verbal agreement, the headquarters of the Agency stayed in Pécs, and small branch-offices were opened in the two other county capitals, as described above.

Another regional level institution, created in year 2000 was a Regional Rural Development Office (RRDO), which was established by the Rural Development Unit of MARD in every region of the country (see 3.4.2. and 4.4.2.). Originally, they were intended for the regional level implementation of the rural development section of the SAPARD Programme. In those regions where a working regional development agency had already been in place, the plan was to put the new agency beside the old one and use the experiences gathered through the PHARE programmes in the implementation of the SAPARD. Therefore, In South-Transdanubia the initial intention was to base the new office in Pécs, if possible in the same building with the Agency. However, in compliance with the decision of the 'new' DDRFT, the Regional Rural Development Office alongside with the regional branch of the SAPARD Paying Agency was finally located in Kaposvár. However, the Agency established a good relationship with the new RRDO significantly helping its development. This was essential for the continuity of development efforts in rural localities, since programmes launched by the Rural Development Unit of MARD in subsequent years (discussed as 'side programmes' in Chapter 5) were in many ways the successors of the PHARE Regional Pilot Action Fund.

As the above narrative shows, DDRFT and the Agency, at an early stage of their evolution became a battlefield for party politics and for development resources, between various geographic interests. This endangered not only the very existence of the Agency and the livelihood of its staff, but also the implementation of the two PHARE pilot programmes and the process of regionalisation altogether. Nevertheless, the Agency employing its social, political and professional capital and relying on its financial independence could successfully resist the attacks. As a result of a verbal agreement, the Regional Development Agency (having some 20 employees and running a number of programmes at the time of the institutional reorganisation in 1999) remained in Pécs with small branch offices established in Kaposvár and Szekszárd. Its role was renegotiated and its situation reinforced. The Agency remained a major actor and asset for regional development, and could continue working without a major interruption. Nevertheless, to guarantee the maintenance of

the status quo and to secure the undisturbed work of the Agency became important additional aims in lobbying for better circumstances for regional development in general.

In fact, changes in the end proved to be beneficial for the accomplishment of ongoing development programmes, since they resulted in another significant expansion of human and financial resources. Most of the administrative work for the preparation of the council meetings could be transferred to the Szekszárd office, for example. In addition, having local offices in every county saved time and expenses for the beneficiaries as well as for the Agency. This meant less travelling for monitoring visits, making contracts, doing consultation or preparing tender documentation. However, according to the opinion of some beneficiaries, problems also occurred. New people in the new offices had to learn everything from scratch and new contacts had to be made. This caused misunderstandings and the loss of some documents for example, and required time and effort to find the way back to the previous level of effectiveness. Nevertheless, these changes finally supported the Agency's position and also its aspirations to become (or remain) independent from political interests and arguments between county leaders. To reinforce this the Agency started to strengthen its consultancy side and other activities not directly connected to DDRFT.

Thus, only three years after its establishment, the Agency had more than thirty employees in three cities, became an important actor in regional development and was carrying out a range of different activities, such as:

- controlling and assisting in the realisation of almost one hundred projects under PRPAF and a complex programme for industrial parks in four Hungarian and one Italian region under the EU INTERREG Programme;
- organising the internal and external relations of South-Transdanubia, concerning rural, regional development¹⁷⁴;

¹⁷⁴ Organising internal relations meant running partnerships between different organisations and interest groups, such as: county development councils, local development associations, local self governments, sectoral organisations, trade unions, NGOs, chambers, R+D and educational institutions. The Agency maintained strong relations with other regions of the country, such as: Western-transdanubia, the Balaton-region, Mid-transdanubia and the South-plain. They were building relations

- preparing for the PHARE Cross Border Co-operation Programme, in partnership with Croatian regions;
- co-ordinating the ongoing process of regional programming ¹⁷⁵ and the development of a regional monitoring system;
- doing the preparation of decision making and the administrative work for DDRFT and ensured the allocation of decentralised domestic regional development funds, provided by MARD South-Transdanubia;
- developing and organising the publication of a GIS¹⁷⁶, under its own initiative, about the development resources of the region; and
- contributing to the preparation of the region for the SAPARD Programme¹⁷⁷.

5.3.2. The regional development (political) arena

The first area of mediation activities of the Agency is the field of regional politics¹⁷⁸. The South-Transdanubian Regional Development Council (DDRFT) is the sole public body representing the regional level. Therefore, this establishment is the main arena for the harmonisation of conflicting political and economic interests within the region. The Agency as the bureaucratic background institution of the Development Council had a significant effect on its work and decisions. The Agency did all the preparation work for the council meetings and the decision making process. It prepared all the documentation and the proceedings, provided expertise and information and was responsible for the implementation of the Development Council's resolutions. As her

with Croatian and Italian regions and represented themselves in the EU through the joint representation office of the Hungarian regions, established in Brussels in 2001.

¹⁷⁵ At the time three major regional programmes were being prepared: the Comprehensive Development Plan; the National Development Plan; and the operationalisation of the region's own development plan.

¹⁷⁶ Computer based geographic information system.

¹⁷⁷ The Agency, in co-operation with the rural development office of MARD, organised regional forums, published information packages and assisted the SAPARD micro-regions in preparing their operative and strategic programmes.

¹⁷⁸ This issue was partially discussed before, however, here I would like to give some explanation about the background and the mechanisms of this activity.

general strategy, the Agency's director tried to avoid having arguments and disputes within the meetings of the Development Council. Her opinion was that: "a public body with 27 members, representing a lot of different interests is not capable of writing a programme, or having fruitful discussions". In order to make progress in important matters, she tried to achieve a consensus of the main interest groups before the decisive meeting of the Development Council. Thus, the resolution that was finally put to the vote of DDRFT could be accepted usually without major conflicts or amendments.

Under the fragile political balance of the region, this strategy usually proved to be fruitful. In practice, the process was very similar most of the time. The main stakeholders in DDRFT were the leaders of the three County Councils. They had great political influence and represented the different geographic interests of the region. Therefore, if they agreed on something, it usually went through the regional decision making process without major problems. On the other hand, if they did not agree about an initiative beforehand, then even simple practical questions could become politicised during the public discussion resulting in conflict and stalemate. The crucial requirement therefore was to iron out disagreements beforehand. During the participant observation I saw this type of mediation work on several occasions. While preparing proposals for council meetings, the Director was negotiating (usually on the phone) with the main parties concerned until she managed to reach at least an approximate agreement about the initiative with all of them. For urgent, unanticipated matters, when there was no time to organise a proper meeting, the practice of 'fax voting' was introduced. In these cases the Development Council did not meet, but proposals were sent out and votes were given by fax. The harmonisation process was similar; though there was little scope for posturing around issues, representatives voted independently from each other. Therefore, the scope for political polarisation could be significantly reduced.

A good example of this sort of mediation between regional political interests through lobbying and the use of special expertise and bureaucratic machinery would be the decision making process in the second round of the PHARE Regional Pilot Action Fund (HU9705). After receiving the applications in April 1999, the next step was their processing and the preparation of the selection process and the decision-making.

Considering the short deadline (there was only six weeks until the decisive meeting of DDRFT) and the amount of the applications, this was a very difficult task¹⁷⁹. In the previous round of the programme the Agency did not manage to achieve a smooth decision. Members of DDRFT questioned the preparation and the proposed final order of the projects. Objections were raised first of all against the geographic distribution of the funds. The politicised discussion became a battlefield for different regional interests and it was difficult to reach a beneficial agreement in the end. In the second round the Agency was more experienced and, thanks to increased efforts and enhanced preparation, everything went more smoothly. The information was so vast and there was so much work involved in the preparation for the decision making that, with the words of the Director “nobody dared to question the final order of the projects”. Besides this, the experts considered a somewhat more equal geographic distribution of the resources and the Director also did some investigation and lobbying amongst regional stakeholders before the decision-making meeting.

Nevertheless, even the most careful preparation could fail on the obstacles of regional politics and differing interests. An example for this could be the voting of the Regional Development Programme in June 1999 (see 5.2.1. and 5.2.2.). The preparation of the programme took one year and involved a wide variety of experts in addition to economic and political actors within the region and in the government. The harmonisation of the Programme went through a very wide social dialogue, organised by the Agency. First, topic-by-topic, every initiative was discussed with the relevant social and economic institutions - some 150 organisations altogether¹⁸⁰ - throughout the region. Representatives of county councils and central government departments in DDRFT were also canvassed for their opinions. After finishing the

¹⁷⁹ During the second pilot programme, eight copies of 169 applications (many of them several hundred pages) were received, which practically flooded the office with tonnes of paper. They were difficult to handle even physically. All of them had to be processed with the most important data entered into a database. Cross tables and other analysis had to be produced to facilitate decision-making. Besides, everything had to be filed and registered to make the process transparent and accountable. The experts had to be appointed and accepted by DDRFT (this was done through fax-voting) and the Agency had to inform them and send them all of the applications and other documentation. There were three different expert committees one for each sub-programme. They first sent their scores by fax, which were checked and compared by the Agency. In case of very marked differences the scores were sent back to the experts to double-check. Then they had several meetings to discuss the results and finally made an agreement ranking the applications. This was put forward to DDRFT for decision.

first draft in Spring 1999, there were territorial forums held in every county and sectoral ones concerning every priority topic separately at the regional level. These latter ones, apart from the invited organisations and the members of DDRFT, were open to any interested parties and were well received by the public. On average, some 50 representatives from different sectoral and territorial interests attended these meetings and contributed to the debate. The Programme therefore represented a very wide consensus in the region. Nevertheless, as a result of changing political circumstances and the sharpening rivalry between Pécs and Kaposvár, the Regional Development Council only accepted the Programme on the second voting, with significant amendments (see 5.2.1).

5.3.3. The local development arena

The second area of mediation activities of the Agency was in the local development arena. I explore this in connection with the preparation and implementation of the first and the second phase of the EU PHARE Regional Pilot Action Fund (PHARE 1996 and 1997), with special regard to the rural development section of the second one. The design of these programmes was exceptionally subsidiary, leaving a lot of space for domestic and regional initiatives; but their financial control remained strict. According to the detailed PHARE procedures and deadlines in contracting, tendering and the control of payments, there was no space for subsidiarity. Under PHARE all contracts, tenders and payments had to be agreed by Brussels or the EU Delegation. In the past, PHARE usually targeted a few large projects, therefore only a small number of contracts had to be supervised. However, under these pilot programmes there were a large number of small value projects, which were difficult to handle with the usual bureaucratic procedures. Similarly, the usual strict deadlines for contracts and payments should have been kept under the programme. However, as a result of the delays and the complicated tenders and other bureaucratic procedures built into the system, this proved to be almost impossible.

¹⁸⁰ Some 80 detailed responses arrived from these organisations, every one of which was articulately answered in writing by the experts.

Consequently, mediation activities could be divided into two periods and two main areas. The first period, lasting until the contract was signed with the beneficiaries, could be called the preparation phase. It consisted of the subsidiary element of the programme design, help provided to potential beneficiaries in preparing their applications and contracts and high level lobbying, in order to create feasible circumstances to start the programmes. The ultimate aims were to have the best possible projects, complying with PHARE (EU) requirements but interpreting these requirements as much as possible to suit local circumstances. In other words, the Agency tried to accommodate local reality and opportunities to extra-local conditions. The second period started after signing the contracts. It could be called implementation phase and it was still proceeding at the time of writing this case study. This phase consists of preparing and doing the tenders and helping with different aspects of implementation and quality control of the projects. On this occasion an operational contract between MARD and the EU had already been signed fixing the implementation rules and there was not much space left for creative interpretation of extra-local conditions. Therefore, the main aim was to help localities to fulfil the often rather strict EU deadlines and requirements. The first phase of mediation was significantly different for the two subsequent pilot programmes. However, the second phase was fairly similar concerning the Agency's mediation activities.

The preparation phase

In the first phase (PHARE 1996), the programme design was made by the central PHARE Regional Development Office and the DDRFT. The Agency was only established at the launch of the application phase; therefore it could not influence it. Even so, in the second phase (PHARE 1997) the Agency made a significant contribution to the design of the application form and the procedures of the programme (see 5.2.3.). The preparation for this started in November 1998 and concerned mainly the rural development section of the programme, which was significantly changed compared to the first phase. Based on the previous experiences, a Hungarian PHARE expert, with the help of the Agency, prepared a preliminary design and application form for the programme. This was circulated amongst potential applicants (local authorities, development associations, businesses, NGOs, etc.). Then open workshops were organised in each of the rural development pilot areas to get

feedback and estimate demands and possible innovations. I participated in two of these workshops. Both of them raised substantial interest, attracted a number of people and made a significant contribution to the programme design. As a consequence, programme windows and eligible activities were modified and amounts moved between different programme areas.

Some elements of the bureaucratic procedures and the design of the application form were also changed based on the recommendations of the Agency. All this was intended to synchronise the PHARE Pilot Programme with the demands of local development. The Agency sought to build local needs into the programme design and to simplify and localise bureaucratic procedures. They were lobbying to be eligible to sign the contracts with beneficiaries getting less than € 50,000 without the counter-signature of the EU Delegation. This demand for subsidiarity matched the wishes of the EU and was fulfilled. The change benefited everybody. It saved a lot of work for the EU Delegation and saved time for the beneficiaries and the Agency. However, it also meant taking bigger risks for the Agency. For the second round of the programme two more changes were initiated: profit-oriented organisations became eligible for support and the procedures for projects with several beneficiaries were somewhat simplified.

Another area of mediation during this phase was the Agency's contribution to the preparation of the applications. During the five week period between the launch and the deadline for the applications, potential applicants inundate the Agency with all sorts of practical questions, problems and project ideas. The Agency was very supportive, providing help in every aspect in order to have as many good applications as possible. They gave advice on project design, how to form partnerships or to meet the required own share of the budget. They even suggested ways to overcome the strict financial rules of PHARE. Many examples could be highlighted including the following. An organisation that intended to develop human resources amongst frontier guards in South-Transdanubia planned a project to organise language courses for them. However, this would have involved paying wages to the teachers, costs of which were not eligible under the PHARE programme. The solution, suggested by the Agency, was to apply for funding the development of a curriculum specialised for border guards using new multi-media or distant education techniques. Then the trial of

the educational material could be the course itself. This, as a contracted service, was eligible for PHARE support.

The great interest stimulated by the PHARE 1997 programme, the generally good quality of applications and the fact that the three sub-programmes were equally over-subscribed suggest that the first phase of the mediation work was successful. The preparation for the rural development sub-programme was especially effective. The wide social dialogue with potential beneficiaries had a range of positive results. There was considerable publicity of the programme, ensuring that every interested party became informed in detail about the possibility much before the official launch of the programme. Thus, they had sufficient time to find innovative ideas, develop them into well-defined projects, set up legal partnerships and prepare documentation and planning necessary for the application. On the other hand potential beneficiaries could influence the programme design. This, though desirable, is not typical in the policy practice. Usually policy-makers, bureaucrats and experts design the programme and eligibility criteria and applicants simply try to fulfil the requirements. Then, money is sometimes offered for 'fashionable but less important' objectives, while significant needs of local people may remain unfulfilled. In the case of HU9705 programme design was significantly influenced by results of the preceding social dialogue and experiences of the first round of the programme. Objectives, the division of resources between different windows, even the design of the application form were changed as a result.

The programme well suited the demands of the targeted localities and the emerging system of voluntary development associations. In fact, in several cases it worked as a catalyst, raised a lot of enthusiasm and co-operation, and mobilised human and financial resources in the pilot areas. Resulting from the programme design, applications for the rural development measures typically arrived from partnerships of small and medium size enterprises, new-type co-operatives, schools, civil organisations and/or local authorities. In some cases the applying partnerships were longstanding co-operations – including local development organisations with their own professionals - using the PHARE resources only to support a part of their strategic development programme. With experience already in development programmes such partnerships usually needed less assistance from the Agency to

make and manage an application. However, other partnerships were set up for this particular programme, had no experience and needed enhanced assistance to develop a successful application. Later on, however, some of these stuck together, developed their own organisation and became important actors in the local system of rural development.

A good example of this is a partnership of a new agricultural co-operative, two local authorities and an agricultural college. The partnership and the co-operative were set-up for the PHARE programme. The main aim was to strengthen co-operation amongst local fruit producers, to reinforce human resources and to increase the locally added value of production. The project received EUR 274,693 support, but the total value of the investment was almost 100,000 more, covered from local financial resources. The results were: a cold store (290 square metre), fruit processing machinery, a course on fruit production for local producers, consumer research and a strategic marketing plan. The project was very successful. It managed to bring the production, processing and marketing of a high value local agricultural product into a common framework, raising the value of production by some 50% and providing livelihood for a number of local people. It also reinforced local networks and co-operation, showing the way of possible development for other groupings and innovations in the area. This development was built on local natural and human resources: advantageous natural circumstances for fruit production; the knowledge, financial resources, social networks and co-operation of local producers; administrative capacity and land area and some money, provided by the two local authorities; and the knowledge base of a local agricultural college. However, without the significant external aid of PHARE, they would have never been able to undertake the essential financial investments to build the cold storage. Similarly, without the practical help of the Agency in setting up the partnership, designing the application and the tender documentation and giving account about the investment, the partnership would not have had the chance to fulfil the EU requirements and undertake the project.

During the preparation phase serious difficulties occurred in connection with contracts, tenders and deadlines. Without the mediation efforts and the administrative capacity of the Agency these could even defeat the realisation of the programme and the expenditure of the PHARE money. As I stated above, in the spring of 1999, the

Agency signed preliminary contracts with the proposed beneficiaries of the HU9606 programme. The reason for this was that, formally, all the resources offered under this programme had to be spent by September that year¹⁸¹. Given the complicated tendering procedure of PHARE, this left a very tight deadline for the realisation of the projects. Therefore, they wanted to have everything ready by the time the operational contract between MARD and the EU Delegation was signed, which gave the programme the official green light. At that time, the implementation and eligibility rules and the final form of the contracts were not certain yet. The Agency applied those interim rules and used that contract form, which was suggested by MARD and the Central PHARE Regional Development Office and informally agreed by the EU Delegation. According to these and the original programme design they grouped similar applications creating large complex projects, many of which contained profit-oriented participants.

However, when the operational contract was finally signed in July 1999, supporting profit-oriented participants was not eligible and supporting large projects with several beneficiaries turned out to be impossible¹⁸². Besides this, the proposed contract form was completely changed and because of shifting exchange rates the amounts were not right any more. All this emerged only a couple of weeks before the deadline, which was set for the spending of the programme's budget. Although there seemed to be hardly any chance to save the situation, the Agency tried everything to make it happen. They reconstructed all the contracts taking the large projects apart, back to their original separate stage. Where the project partnership was led by a profit oriented organisation (a business), but there were other, non-profit participants, they persuaded the beneficiaries to change the leadership, so the project could be eligible for support¹⁸³. All this was completed before the deadline and handed in to the Central

¹⁸¹ According to the standard PHARE procedure, signing the contract with the beneficiaries did not actually mean that the money was spent. For this, the beneficiaries had to complete the tendering procedure, to choose the builders and other sub-contractors and to sign the contracts with them.

¹⁸² This latter was not actually forbidden, but the contract, the tendering and the accounting procedures would have been so unique and complicated for these large projects, that to carry these out was just impossible, given the time frame and the preparedness of the beneficiaries. The original expectation was that this programme would have been given special exemption from the usual PHARE procedures. However, the EU did not agree with this finally.

¹⁸³ Another way was to establish joint Public Utility Companies. Even if the participants were profit-oriented, the joint company, at least de jure, was non-profit, therefore eligible for support. In the case of

PHARE Regional Development Office. Then, as a result of some lobbying, the EU gave two alleviations, which made the start of the programme possible. The deadline for spending the money was extended until the end of September and signing the contracts with the beneficiaries was accepted as the spending of the money¹⁸⁴. In this way, the requirements could be fulfilled and by the deadline the whole amount of the EU support was contracted and saved for development¹⁸⁵.

This was clearly a result of successful mediation work accomplished by the Agency. They managed to translate EU requirements making them realisable for the beneficiaries, and vice versa, needs and interests of the localities explaining them to *the centre* in an acceptable manner. There were several reasons why the Agency could manage this 'last minute rescuing' of the programme. First of all, this institution was on the right level of the development structure. It had enough power and influence to lobby on a political level and to achieve somewhat better or more feasible conditions for the programme on the local level. It also had enough financial and human resources to keep up to date, getting information and understanding central trends and political issues. At the same time, the Agency was close enough to the local level to have a knowledge and understanding of local matters and development networks. They knew what requirements the applicants were likely to be able to fulfil (even if with their sufficient help) and what would be an impossible burden for them. Through the programme design and the preparation of the applications, the Director and her staff had personal contacts with the local actors involved in the proposed projects. Without all this, it would have been impossible to do the negotiations and make all the changes in such a short time¹⁸⁶. Secondly, the staff of the Agency was very committed

MÁV (Hungarian Railway Company) non of the solutions worked, however, they requested (and were given) a special exception from the EU Delegation. In two other cases none of these solutions could have worked (in these there were many small profit oriented beneficiaries). With the agreement of the EU Delegations these projects were transposed to the second round of the programme (HU9705), and instead three projects (with single, non-profit beneficiaries) were brought into the first round.

¹⁸⁴ In fact, to go through the tendering procedure, which was the original requirement, required more than another year.

¹⁸⁵ However, all this did not go so smooth, there were mistakes and failures. One example follows as: In the EU Delegation, because of the shift of the exchange rates the financial tables did not sum up, some money was missing. The last minute solution was that they randomly choose a project and reduced its budget with HUF 7.5 million.

¹⁸⁶ Reconstructing the contracts, establishing new companies was a costly and time-consuming hassle also for the beneficiaries. Moreover, all this was to access that money, which they applied for the

to the success. It was a new developing institution, with young enthusiastic personnel. The failure of the PHARE Pilot Programmes could have meant the loss of their jobs and the defeat of the cause they had been working for far more than a year by then. This was also a time when the legitimacy and the very existence of the Agency were politically challenged (see 5.2.1.). They had to prove that their work was indispensable for the region; therefore they did everything they could to achieve success and to reinforce their position. Thirdly, without the liberal and experimental style of the original design of the PHARE Regional Pilot Action Fund and the final concession of the rules by the EU Delegation and the DG Enlargement they could not have succeeded.

The implementation phase

The main mediation activity of this phase was helping beneficiaries to carry out the tendering for the projects, complying with the standard PHARE tender procedure. This was a highly complicated system, which contained more than 40 different thresholds¹⁸⁷. In general, first the tender documentations had to be prepared, specifying the needed products, buildings, services or other activities. Then the tender had to be advertised, offers evaluated and a shortlist drawn up. Thirdly tender negotiations had to be organised with the participation of the beneficiaries, a PHARE expert and the representatives of the Agency, the Central PHARE Office and the EU Delegation. However, exact procedures differed depending on the value and the type of the individual spending. For service contracts (consultancy, studies, training) and supply contracts (procuring equipment and material) the rules were somewhat simpler, but for building contracts they were more complex. Plans and technical details had to comply both with Hungarian and EU standards. Under € 50,000 it was enough to advertise the tender locally. In fact, beneficiaries could create a shortlist themselves, choosing the invited businesses for the tender negotiations. This often

previous summer and expected to receive and spend more than half a year before. A lot of them were angry and disappointed, however, they understood that it was not the fault of DDRFT or the Agency and their full co-operation was needed to save the situation and 'their development money'. Without personal relationship and good contacts this probably would not have worked.

¹⁸⁷ Details about the standard PHARE procedure can be found on the Hungarian PHARE homepage at: <www.phare.org.hu>

meant having hardly any competition on the negotiations, which strictly speaking was against the PHARE objectives. Nevertheless, it helped local businesses to get commissions serving synergic effects, which was an ambition of the programme. Above € 300,000 tenders had to be advertised internationally, on the Internet, and only a few companies, short-listed by the EU, were eligible to give offers. The whole system was somewhat different for service contracts. For these the EU as framework contractor appointed an international consortium¹⁸⁸. This consortium had a shortlist of sub-contractors (experts, service providers, etc.) in the region, covering many areas of services and types of expertise. Those commissions which were covered by these had to be given to the framework contractor. Then the framework contractor usually gave the commission to local (regional) experts or businesses. In this case the tendering procedure was much simpler, however, the services were more expensive.

At the beginning, the Agency had no experience with the tendering and even the small (under € 50,000) tenders had to be prepared by the central PHARE experts and confirmed at least by the Central PHARE Office. This made everything extremely complicated. Beneficiaries knew their case (what they wanted to buy) but did not know the PHARE tender rules. They had to negotiate with a PHARE expert in Budapest, who was responsible for the preparation but who had no knowledge of local issues. The third party of the triangle was the Agency, trying to connect the two others and clearing up the misunderstandings. Finally, it proved to be less time-consuming and more effective for the Agency to prepare tender documentation on behalf of the beneficiaries. In the case of service contracts the tender documentation had to be written in English. The translation work was also done by the Agency though financed by the Central PHARE Office. Later, especially for the second round of the programme, the procedure became somewhat simpler. The Agency, beneficiaries and experts were all more experienced. This allied to a good lobbying strategy, encouraged a greater atmosphere of trust, resulting in the EU slackening the rules. From then, only the high value tenders (above € 100,000) had to be counter-signed by the EU Delegation, the smaller ones could be approved by the Central PHARE Office

¹⁸⁸ This consortium was actually led by a company from Birmingham, the West Midland Enterprise Board. This company started to target CEE markets at the beginning of the 1990s and by 1999 had a wide network of domestic experts in a number of fields in several CEE countries. Important exceptions were tourism related services.

or the Agency (under € 50,000). This made everything much easier and quicker for the smaller projects. Large tenders that had to be approved by the EU Delegation were subject to many months delay because of the long and complicated procedure. Though, some 25-30 small tenders were also rejected for the first time, mainly because there were not enough quality offers or they did not fulfil the formal requirements of PHARE. Reasons for this were manifold: because of the delay, inflation and price changes the available money was no longer sufficient, or the technical specification was not up to date enough; local businesses were inexperienced in the PHARE procedure and they could not fulfil the requirements or were simply frightened (or did not bother) to apply for the tenders. Nevertheless, with some help even these tenders went through at the second attempt¹⁸⁹.

After completing the tender procedure, beneficiaries could start to purchase goods and services or construct buildings. Then they could bring their receipts in to the Agency every three months for reimbursement. This was not a simple administrative task to fulfil. There were a number of problems with the receipts, partly because of the inexperience of the beneficiaries, partly because they did not spend the resources in the 'exact official way'. This does not mean that they stole anything or did not spend the money on the project, but sometimes they just could not adhere to all the rules. On several occasions, for example, the beneficiaries did not have the required own share of the programme's budget to start with. The reason for this could be either that they did not have the resources themselves, or that it was often impossible to harmonise the expected domestic support with the PHARE funding because of the delay of the latter. They could get away with this during the preparation¹⁹⁰; however, it was to become a problem when completing the project, since that money was missing from the budget. Hypothetically, a possible way out of the situation could have been to make a deal with the sub-contractors. They could have asked for receipts with slightly larger

¹⁸⁹ PHARE tender rules were significantly modified from the year 2001. This meant that tenders that had not been completed before, had to be reconstructed according to the new regulations, causing further delays for the projects.

¹⁹⁰ There were several techniques to disguise this deficiency. At the beginning of the programme only a bank certificate was needed to prove the existence of the money. This could be acquired through borrowing some money and putting it in an account for just a couple of days. In a particular micro-region, for example, the same few hundred thousand Forints went around the local bank branches to serve as the own share for several applications being prepared in that area.

amounts than the true value of the purchased goods or services. Then sharing the margin with the sub-contractors provided a profit, which could have stood for the missing amount. Otherwise, applying with the same project to several sources and reimbursing the same costs more than once would have been another possibility, giving potential scope for filling the gaps in the budget. These techniques were risky business and they required forward planning and had a chance for failure.

Besides the implementation of the PHARE pilot programmes, the Agency had a range of other activities to help local development in the region. They gave advice and provided consultancy services for SMEs and local development associations. For example, they helped to set up legal partnerships, making contracts and other types of documentation, such as business plans. They organised various workshops and conferences helping regional and local actors with up to date information¹⁹¹. They also organised regional forums every three months to follow up the latest developments in the preparation for the SAPARD Programme. This information was also published and circulated amongst regional actors. They provided information and advice to SAPARD micro-regions for writing their strategic and operational programmes, attempting the harmonisation of these with each other and with the regional development programme of South-Transdanubia. With the support of the PHARE Regional Pilot Fund, they organised a free educational programme for local development actors called "Supporting local community initiatives". Through all of these activities the Agency became a significant actor, the 'mover and shaker' of development activities, throughout the region. It extended well beyond its original field of action and in spite of the often quite difficult circumstances; it became a thriving institution of the South-Transdanubian development arena.

¹⁹¹ I participated in two of these. The first was a one-day international conference on regionalisation and regional development. Amongst the speakers there were representatives of EU regions and the European Commission and domestic and international experts of the topic. The conference raised considerable interest. Consultant companies came from all over the country and local authorities, businesses, representatives of micro-regions and development associations and other stakeholders from the region were also present. The other one was a two days workshop, given by Irish experts from the Shannon Regional Development Agency. They came in the framework of a twinning project, subsidised by the EU, and talked about their long experience in rural, regional development and in dealing with EU development funds and legislation. The workshop was free and it was attended by many rural development actors.

5.4. Some conclusions - mediation, reflexivity and the integrated rural development model

We argue that the PHARE pilot programmes were successful; however, they could not have succeeded without the effective contribution of the Agency. At the same time, the establishment of the Agency was exactly due to, and a prerequisite of, the programmes. However, the importance of the Agency went far beyond the implementation of the PHARE programmes and in this way, fulfilled the original intention of the designers of the PHARE programme to contribute to the development of an effective regional institutional system in Hungary. The Agency was somewhat ambivalent about regulations and the work of EU and domestic bureaucratic machinery. They had to be, since they suffered the consequences of delays, changing rules and directions and other dysfunctions of officialdom. In fact, one of their main aims was to protect localities and the implementation of the pilot programmes against these dysfunctions, as far as it was possible. This section tries to analyse what conditions enabled the Agency to carry out its tasks successfully.

As I stated above, the design and the objectives of the PHARE pilot programmes were supportive to local development and they were certainly more liberal than the Hungarian system. However, the implementation of the programmes required professional skills and expertise, complying with EU standards, which the targeted localities usually did not have. The Agency acted as an intermediary in this, filling the gap between the central and local levels. It did not simply implement a programme, but behaved as an active agent, constantly reflecting on constraints and possibilities. It helped 'locals' to fulfil central requirements and even to find loopholes and negotiate around the rules if that was needed for success. Though as an implementing body the Agency was concerned about spending the programme money, its team greatly emphasised process type aims. Improvements in the field of programming, partnerships, and co-operation; regional and sub-regional levels; and a significant change in thinking about development in general were considered to be the main achievements of the Agency by its director. They were committed to the idea of integrated rural development and to the people they served. The implementation of the pilot programmes and the development of SAPARD micro-regions greatly helped to spread values of endogenous rural development (partnership, programming,

participation etc.) emphasised by EU rhetoric. Nevertheless, without the Agency it would have been extremely difficult to achieve success or to spend the resources of the PHARE Regional Pilot Action Fund.

First of all, the Agency significantly contributed to the design of the programme, reinforcing an endogenous development approach. Then, lobbying jointly with the Central PHARE Office, they achieved some concessions over the implementation and administrative rules of the standard PHARE procedure, somewhat adapting them to local circumstances. The other area of action was the regional political arena. To facilitate the decision making process they had to mediate between various interests and political forces. Without this 'horizontal political mediation', the evolution of the regional development system and its institutions could have been significantly delayed by the jostling for position of different political and territorial interests. This could have hampered the work of the Agency, reducing the availability of internal and external development resources and impeding the development of rural localities. Under the transitional circumstances of Hungary this regional level, employing horizontal mediation in order to create a more supportive environment, was essential for the success of the development process.

The Agency was significantly different from the ordinary public bureaucratic institutions of the Hungarian system as well as from commercial consultancies. Although most of its work was connected to state and EU policies, the Agency was not part of the standard bureaucratic hierarchy. There were three official institutions superior to the Agency, from which they received commissions and help, and towards which they had to report about their different activities. The closest was DDRFT that was a delegated decision-making body, a completely new element of the development system created by the 1996 Act. Another institution was the Central PHARE Regional Development Office, another agency based on a territorial development philosophy implementing PHARE programmes on the national level. The third one was the National Regional Development Centre, which was serving as the background institution for the National Regional Development Council as the national level counterpart of the Agency. Therefore, the Agency was not part of the system of traditional Hungarian governmental bureaucracy. However, it was part of a developing parallel institutional system, based on EU rhetoric and the values of

territorially integrated development. It was a quasi-autonomous non-governmental organisation (QUANGO) enjoying reasonable financial independence, and therefore, it could not be simply 'ordered' to follow a certain direction by political forces. The philosophy of its work had three sources. It reflected the EU rhetoric on endogenous rural development, on which the PHARE Regional Pilot Fund was based. Another important source was the 1996 Act on Regional Development, which deliberately was harmonised with the rhetoric of the EU Structural Funds. The third source was a more personal one, coming from the professional background and the personality of the leader of the Agency. The Director used to be a 'reflexive practitioner' herself (see 2.2.5.) committed to help rural localities and having a great influence on the work of the Agency and the implementation of the PHARE programmes.

Another characteristic, distinguishing the Agency from traditional bureaucracy was its staff and working style. Although the Director used to work for various departments of the county government for years, most colleagues with whom she had chosen to work were young professionals with no experience in public administration. The Agency had a different working style that would not have fitted into the 'eight to four' official standards and a different approach to deal with rules, people and other matters of development altogether. Nevertheless, probably the main factor that distinguished the Agency from 'more official' development institutions (the SAPARD Agency, for example) was its relationship to 'risk'.

As it was argued in the previous chapter, one of the main characteristics of the presently formulated EU assisted development institutions is risk evasion (see also 2.2.2.). Though they often have significant influence on the make up and the implementation of political decisions, they hardly take the responsibility for policy failures. Bureaucracies, using their expertise and positional power, usually try to avoid taking risks. They pass it on to elected bodies, to beneficiaries or to lower level bureaucratic institutions. According to my exploration, the Agency followed a different strategy behaving roughly in the opposite way. It took part in the design of the PHARE pilot programme and advocated it to all regional actors. It had to face many conflicts and take many risks during preparation and implementation. Furthermore, there was a chance that the Agency itself might break down, if the policy failed for some reason. Even so, the Agency did not try to avoid taking

responsibility. Lobbying for more freedom to sign contracts and tenders without involving the EU delegation, or treating regulations in a flexible way meant taking more risks and responsibility. However, these were essential for the successful implementation of the programmes and also were key characteristics of the working strategy of the Agency.

These characteristics, distinguishing the Agency from usual bureaucratic organisations, suggest a resemblance at the same time to commercial consultancies, which represent another type of 'technical expert institution' in the field of rural regional development¹⁹². Though, the Agency has significant differences compared to these too. Most importantly, having durable commissions from DDRFT, it was not fully liable to market competition and could enjoy a relative financial security. On the other hand, it had a unique position, which could mean a great advantage in competing for commercial consultancy commissions. As a quasi-official institution it certainly had the most information on the possibilities, the decision-making procedures of DDRFT and the priorities of the employed experts. On the other hand, through the implementation of the PHARE programmes they acquired a lot of knowledge and expertise about writing and managing development programmes. They also had excellent connections and a good reputation and were in an outstanding position for starting a good business in this field (which was an option, when the existence of the Agency was put in danger by political considerations). Nevertheless, they did not want to become a profit-oriented business. This could have jeopardised the completion of ongoing programmes and their whole philosophy on development, which was significantly different from the usual market logic. Being in a unique situation, they could offer their services to localities free of charge or for a price well under the commercial rates of consultancy. Becoming a commercial business would have meant losing much of their political influence and unique access to information and they could have hardly maintained their consultation practices and other activities. Consequently, being in a protected situation, allowed the Agency to ignore market rules and to be more sensitive and reflexive to the needs and problems of localities than usual commercial business.

¹⁹² Especially in terms of working style, employment strategy and the 'flexible treatment of rules' the similarity is apparent.

Comparing the rural development component of the second PHARE pilot programme to my simple integrated and non-integrated models of rural development (see 2.2.4.), I argue that the design and implementation of this programme approximates to the integrated system. Central resources, arriving from the EU budget, supported institutional development (DDRFT and the Agency) at a reasonably local level. Also, flexible rules ensured a high level of subsidiarity for the exact design and implementation of the programme. Resources were then distributed and channelled from the regional level to some pilot areas ensuring a high geographic concentration of development aid. The Agency was standing between the central system (EU and domestic bureaucracy) and the local system (village associations, partnerships, co-operatives, etc.), mediating and harmonising interests and conditions. Through this vertical mediation the local system influenced the design of the programme and could retain some of its influence throughout the programme. As a result, information, tacit knowledge, social networks and innovative ideas could be utilised in the development process and local development resources could be unlocked. As a result, not only the programme money was successfully spent but similarly to the LEADER Programme considerable local financial resources also became involved and a significant added value was generated for the development process.

Nevertheless, the programme did not fulfil some of the other 'requirements' of integrated rural development. Firstly, it did not support coherent integrated local development programmes, but 'only' complex projects. Applications had to demonstrate their link with regional and local development strategies; however, they were still separate projects. Consequently, the programme might have missed possibilities for promoting synergic effects. On the other hand, instead of a properly working and institutionalised local development system, many tasks were fulfilled by the Agency. This could work in a pilot scheme with limited resources and duration; however, it is difficult to imagine this model succeeding in the long run. The working style of the Agency was extremely dependent on the circumstances and especially on the approach of its Director. These conditions can change with time. Additionally, such a rapidly growing organisation is likely to lose its initial flexibility and be subject to increasing bureaucratisation, which can undermine its role as an effective mediator in rural development matters. Nevertheless, the PHARE programmes and

the Agency, discussed in this chapter, greatly contributed to the evolution of the emerging rural development system in South-Transdanubia.

CHAPTER 6. CONCLUSIONS

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EU ENLARGEMENT; INTEGRATED RURAL DEVELOPMENT; AND THE TRANSFER OF INSTITUTIONS, POLICIES AND IDEOLOGY

The thesis addresses four key issues:

1. What are the roots of current EU pre-accession programmes in earlier European rural policies?
2. Do the pre-accession policies – if understood as indicators of future policy evolution – reveal EU policy makers intentions towards significant reforms?
3. How and what sorts of institutions, policies and development philosophies can (or cannot) be transferred from the EU to Central and Eastern Europe?
4. What are the effects of pre-accession preparation and the transfer of EU resources, rules, institutions and development approaches on Central and Eastern European rural policies and rural life in general?

To examine these issues the research analysed EU policies, their implementation and effects in one of the 'soon to be' New Member States, Hungary. The first two issues are closely related. To address them the thesis identifies how the trajectory of EU rural policies has been mirrored or altered in the pre-accession policies, in particular the SAPARD programme. I argue that contemporary EU rural development policies are still very much rooted in the modernist tradition and changes in favour of the so-called 'new rural development paradigm' have mainly remained on a rhetorical level. Furthermore, current pre-accession policies seem to reinforce this trend, and the approaching eastern enlargement is likely to remain a lost opportunity (or even a setback) for the significant reform of EU rural and agricultural policies.

For the third issue, besides SAPARD, I analyse another EU aid scheme, the 1996-7 PHARE Pilot Action Funds. While SAPARD emerges as a policy failure, the PHARE represented a significantly different approach to policy transfer and had distinctive and largely positive effects on the development of institutions and some rural areas of

South-Transdanubia, one of the pilot regions. This programme managed to realise a rural development system, which, the thesis argues, had the potential to operate in an integrated manner as a local development agent. To address the fourth issue, the 'intended-effects' and 'side-effects' of the SAPARD programme in the Hungarian rural development arena are analysed. This thesis argues that EU influence has enhanced the transformation and reinforcement of both the central and the local system of rural development in Hungary. However, the essential link, connecting central and local systems is missing.

6.1. Eastern enlargement and the evolution of the 'new rural development paradigm'

6.1.1. The evolution of EU rural policies

One of the main aims of my analysis was to show the inherent contradiction within EU rural policy making. In order to do this, I examined different branches of EU rural policies (CAP, rural industrialisation, Structural and Cohesion Policies, Pre-accession Policies etc.) and their effects on the European countryside. I argued that in spite of the changing socio-economic circumstances and growing pressures, EU rural policies have remained deeply rooted in an interventionist exogenous development paradigm, which is generally characterised by modernisation, as a ruling concept (see 1.2.).

The *CAP* – the most expensive of all EU policies in budgetary terms – operated without significant adjustments for decades, but a growing sense of environmental damage, social expenses, dwindling agricultural employment and external forces (such as subsequent rounds of the GATT negotiations) required policy makers to reform agricultural policies from the 1980s (see 1.2.1.). Nevertheless, studying the successive reforms of the CAP I stated that a 'paradigm shift' still has not occurred in the field of agricultural policies, and – though the CAP indisputably failed to maintain rural values and livelihoods – it has been able to 'escape' through first and second order changes (see 1.2.3.). When old measures failed to meet new circumstances, reform proposals were originated from within the EU bureaucracy (a distinct

characteristic of first and second order changes) and were watered down, rather than reinforced by external forces (conservative economic and political lobbies). Rhetoric, objectives, policy instruments, support mechanisms were changed, however, basic principles (competitiveness, intensive production); the fundamentals of the philosophy of the programme; and the very unequal division of the subsidies amongst farmers were practically untouched. In fact, the CAP can be seen as the saga of how the political-economic centre (and agricultural lobbies) has maintained its political influence, the level of agricultural subsidies and the protection of the EU food-industry from international market forces (see 1.2.3.).

Another attempt to establish a new set of rural policies – instead of changing the old CAP – was the fundamental reform of the *Structural Funds* and the establishment of the *Cohesion Fund* in the 1980s. These were aimed at the alleviation of growing regional differences (see 1.2.4.). Overall, Structural Policies represent a very significant change compared to previous policies of the EU. A whole set of new institutions and policy instruments was set up, new objectives and funding methods introduced, and a new ideological framework created. The main reason for these alterations was the serious changes in the economic and political circumstances and the ‘external pressure’ of the southern enlargement. These could well be the signs of a shift of the ruling policy paradigm. However, there are opposite indications too. The new system supplemented the old paradigm, rather than replacing it; new policies and institutions were initiated and designed from within the existing bureaucratic system and network of experts. Policies mainly implemented previous exogenous regional development and agricultural structural policies, however, within a territorially focused framework. The very basic principles of the policy paradigm – such as its top-down, centralised nature and its orientation towards global competitiveness – were not challenged by the new system. Thus, within the given framework of analysis (Hall 1993), the development of the Structural Policies should be considered as a second order change, which fits into the processes of ‘usual policy evolution’ rather than representing a paradigm shift (see 1.2.4.).

As a set of responses to the old, modernisation paradigm, however, a *new rural development paradigm* started to take shape, based on practical examples, rather than

theoretical thinking (see 2.1.). The condition of 'sustainability' and a need for an integrated, spatial approach instead of supporting economic sectors spread gradually amongst rural development actors. Additionally, a certain erosion of the ruling policy paradigm had started, political documents and speeches began to urge the application of a more complex approach to problems, emphasising a 'rural preference' instead of 'agricultural preference' specified in the Treaty of Rome (see 1.2.4.). A 'vision-paper' of the European Commission – The Future of Rural Society (CEC 1988) – and eight years later the Cork Declaration were tangible manifestations of the political will for changing the ruling paradigm in European rural policy making. Another strong sign of this was the launch of the LEADER programme, which could be understood as a radical divorce from modernisation, or a shift away from the earlier policy paradigm (see 1.2.5.). Although it was originated from within the bureaucratic system, it took a route which was almost the opposite of the usual policy practice. New institutions and procedures were built, separately from the traditional bureaucratic system, employing what has been referred to as "reflexive practitioners" (see 2.2.5.). The bottom-up approach was a widely referenced development philosophy, alternative to the earlier paradigm, and LEADER was an experiment to answer failures in earlier policies and to fill the new development approach with content in a European environment.

Agenda 2000 – with the Rural Development Regulation celebrated as the 'Second Pillar of the CAP – which was initially expected to foster the reforms and make a strong move for shifting the old paradigm, however, was not equal to expectations. The Agenda 2000 outcome was deeply compromised and must be judged as a missed opportunity to transform the CAP (see 1.2.7.). Effectively there was no 'reform dividend' at the EU level (i.e. no freeing up of funds from Pillar 1 to promote the integrated rural development agenda). While cohesion and a 'bottom-up', endogenous approach to development are set out as desirable objectives, Agenda 2000 puts rural development in danger of becoming merely a branch of sectoral agricultural policy, or even agri-environmental policy (1.2.7.).

As a result of the evolution of development philosophies, references to cohesion and an endogenous (contrary to previous exogenous) approach to rural development and

other expressions of the new paradigm – though sometimes with altered meanings¹⁹³ - became the main tone for policy documents and political speeches in the field of structural as well as agricultural policies. In reality, though, very little has changed in comparison with the time in which exogenous development philosophy dominated. Mainstream policies still fail to recognise non-agricultural rural needs. The LEADER Programme has not become a core policy, nor has the Cork Declaration been realised in everyday policy practice. The vast majority of resources – running counter to declared objectives of the EU's regional policy – are still allocated in order to promote industrial agricultural production and centrally organised exogenous development programmes. Therefore there is a basic, inherent contradiction between the objectives set in political statements and the programmes proposed for implementation. In short, while in socio-economic theories and on the rhetorical level of policy making there has been a clear paradigm shift from *traditional modernisation* towards an *integrated rural development approach*, in reality, policy, procedural and budgetary evidence prove that this paradigm shift in actual policy-making has not taken place at all (see 1.1.).

6.1.2. The pre-accession policies and the reform of the CAP

The approaching eastern enlargement of the European Union is often seen as the most significant external impetus for a major reform of the CAP (see 1.3.). In designing rural policies for applicant countries for the pre-accession period, EU policy makers had to make a strategic choice between 1) aiming to maintain the present system and 2) using the opportunity of enlargement to initiate significant changes in the field of rural policies. The first possibility – requiring the extension of existing EU policies, institutions and procedures (rooted in the modernisation paradigm) to the Future Member States – was somewhat easier and safer. Helping to build Euro-compliant

¹⁹³ For example, in the new paradigm sustainability means the long-term maintenance of communities and their cultural, socio-economic and natural environment. For the current modernist regime sustainability means the maintenance of economic growth and competitiveness. Transparency, from a local development point of view can be understood as having appropriate information and a clear influence on the factors, influencing local life and development possibilities, including the design and implementation of concerning policies. From a central point of view it means that every Euro of the budget of any aid programmes is accounted for; there is a receipt, a responsible person or business; there is no possibility for fraud; and the whole process is clearly controlled from the centre.

national agricultural bureaucracies aimed at the integration of large new territories into the old policies was not a simple task. However, it neither required much innovation from EU officials nor was it likely to threaten existing structures. Instead, it could be expected to reinforce the CAP and the current agricultural administration of the EU.

For the second choice, pre-accession policies should have been based on the ‘new integrated rural development paradigm’, turning EU rhetoric into practice. Accession countries would have been well suited for such an experiment for many reasons – such as being in transition, having generally more rural values and more traditional rural societies (see 1.2.1, 1.3, 3.5.). A successful case of centrally supported integrated rural development, then, would have created justification and legitimacy for the long wanted significant reform of EU rural policies. Nevertheless, in this case, besides national central bureaucracies, new institutions and procedures – alien of mainstream CAP – should have been established throughout the development system; and significant opportunities for innovation and local adaptation of policies should have been allowed. This might have well appeared to be hazardous for policy makers, endangering transparency and accountability, and posing a significant risk of failure on policies.

The examination of the pre-accession programmes clearly showed that EU policymakers have chosen the safer way (see 1.3.). The analysed SAPARD Regulation does not go beyond the CAP RDR, on the contrary, it is a watered down version of the latter. In every step of the policy-making process (from the draft to the final version and throughout the subsequent documents on finance, implementation and co-ordination) the focus of SAPARD was increasingly narrowed down to agricultural restructuring, losing the scope of a wider rural development perspective. According to the notion of subsidiarity, administration and programming were devolved from the EU to the applicants, however, on the country level a centralised bureaucracy had to be established; and through the list of eligible activities, the evaluation process and the financial rules of the EAGGF Guarantee Section, a potentially very strict control by Brussels could be foreseen already before the launch of the programme. Even existing EU policies and approaches, alternative to the ruling

policy paradigm – with special regard to LEADER – were lacking from proposals to Central Europe.

We argue that the pre-accession policies, as published in the Agenda 2000 and the connected documents – and even more so in their implementation as we will see later – concentrate mainly on political and economic cohesion. Beyond the rhetoric, their main aim is to improve the accessibility of the official system, markets and territory of the CEE countries for the policies, goods and capital investment of the EU (see 2.2.2.). In other words, the pre-accession strategy is likely to reduce the shock of enlargement for the current Member States, rather than for the applicant countries.

The primary objective of the EU is to build a strong, Euro-compliant bureaucracy on a governmental level, which will be able to work with the complicated official system of the EU in the near future. The secondary objective is to ameliorate physical accessibility, mainly through building international motorway connections, and, to a smaller extent, improving airports, railways and trunk-roads. The third objective is connected to environmental threats of international importance, aiming to reduce water and air pollution and the better management of municipal waste. Concerning rural areas the main objective is to prepare CEE for the agricultural restructuring policies of the EU, and the insertion of CEE agriculture into the EU in a subsidiary and very unequal position. Some of these developments are very much needed in CEE. They are useful and welcomed by the applicant countries. However, they are (at least) equally useful from the viewpoint of the current EU15¹⁹⁴. The pre-accession strategy supports almost exclusively objectives that can be justified with short to mid-term political and economic interests and it is designed in a centralised, top-down manner. Social cohesion, the reinforcement of local economy and society and, in general, the aims of an endogenous integrated approach to rural development are almost totally lacking.

After the southern enlargement of the EU a major policy reform was undertaken, through the Cohesion Funds and the reformed Structural Funds, and a whole new set

¹⁹⁴ Without an appropriate, EU-conform bureaucracy there is no way to control the implementation of EU policies; without good transport connections it is difficult to reach CEE markets; the lack of EU-conform health standards, business services and market institutions can jeopardise future investments of Western capital in CEE; and pollution does not respect national borderlines.

of institutions and measures was created and added to the old system. It was not a simple extension (or coercive transfer) of existing policies to the New Member States, since the design of new policies was based on pilot schemes, run in the applicant countries, i.e. a process of social learning. Compared to this, in the Agenda 2000 there is no intention to introduce anything like a significant parallel structure of policies designed to the special needs of the Central European Countries. Existing policies are simply imposed on the New Member States, without any significant modification. SAPARD seems to have maintained the objectives, structure and procedures of the current CAP in a top-down, centralised manner, without quality changes of the system, and can be seen as a step backwards, rather than forwards, in the evolution of EU rural policies. This – considering that the pre-accession programmes are to prepare future members for future policies – does not allow for much optimism concerning the possibility of a paradigm shift in EU development policies in the foreseeable future. If New Member States are integrated into the current status quo, then Eastern Enlargement may even further postpone the significant reform of the CAP.

6.2. Success and failure in transferring rural policies

In this study I investigated the implementation of two development programmes in detail: the Hungarian SAPARD Programme (see Chapter 4.), and the PHARE Regional Pilot Action Funds in South-Transdanubia (see Chapter 5.), with special regard to its rural development component (referred to as the ‘PHARE Pilot Programme’ below). Both programmes were initiated by the EU; they were new to the Hungarian rural development system; institutions and bureaucratic procedures had to be established for them; and they both suffered significant delays during their implementation. Nevertheless, the ‘official SAPARD Programme’ was regarded overall as a policy failure¹⁹⁵, while considered the PHARE to be a success in South-Transdanubia. The following offers a comparative analysis of the two programmes

¹⁹⁵ Official as opposed to the ‘side programmes’, discussed in 4.2.

with special regard to their development philosophy, their key institutions and the integrated and non-integrated nature of their implementation.

6.2.1. The philosophy of the programmes – soft and hard policy transfer

The most fundamental differences between the two programmes originate from the development philosophies in which they are rooted and which largely influence their outcome. In fact, both programmes intended to introduce new institutions and procedures in the Hungarian rural development systems through some sort of policy transfer. Nevertheless, what they wanted to transfer (the concerned institutions and procedures), and the nature of the transfer (hard or soft) were fundamentally different, having significant consequences on effects of the programmes (see 1.1.).

After political and economic changes in Central and Eastern Europe, the first reaction of the West was to give political and economic support to the newly established democracies. At the time of the explored PHARE Pilot Programme, Agenda 2000 was just being formulated; there were many elements pushing for significant reform of the CAP: the battle was just beginning and had not yet been won by the agricultural lobbies (see 1.2.7.). Although, financial support never really reached a high level, at the beginning bureaucratic control was somewhat looser and the money was relatively easy to access. Previous to Agenda 2000, the general aim of PHARE was actually to provide financial and professional help for the development of backward areas. In other words, at the beginning of the pre-accession procedure, policies were dominated by soft transfer (development aid schemes, twinning experts, screenings, programming), and social learning – the transfer of a new development philosophy through the rhetoric and examples to all rural development actors (see 3.4.1. and 1.1.).

Within the given circumstances of an EU funded aid scheme, the policy transfer in the case of PHARE Pilot Programme (see 5.2.3.) can be characterised by an exceptionally soft, experimental nature. The whole initiative was more typical to Structural Funds operations (generally carried out by DG Regio) than to CAP measures (see 1.2.4.). In fact, the action of the policy transfer can best be captured here through the establishment of the 1996 Act on Regional Development (see 3.4.1.). This legislation was designed by Hungarian policy makers, but was inspired and supported by the EU

and the development philosophy of the Structural Funds. The Phare Pilot Programme, then, was offered by the EU to establish and reinforce institutions and procedures in domestic legislation, and the money came with only very loose guidelines on how it should be spent (see 5.2.1. and 5.2.3.). The main aim – and the main action – therefore, was to transfer the development philosophy; the resulting institutions and procedures were subsequently allowed to be built organically, giving sufficient room for local adaptations. The whole programme had a certain quality of a pilot policy, somewhat similar to the LEADER I (see 1.2.5.). One could say, though with certain restrictions, that the PHARE Pilot Programme was rooted in the 'new rural development paradigm', rather than in the old one.

With the opening of the accession negotiations, however, the Commission rearranged its development philosophy to focus on those objectives that have direct importance in the preparation for membership, mainly in the fields of institution building and investment (see 1.4.). In the words of one of the EU officials interviewed in Brussels: "We [the EU] used to give money for basically anything. From now on we do not support our future competition with the money of EU taxpayers." To establish new core institutions and legislation and to convert old ones to make them comply with EU requirements became the main aim for pre-accession policies. The whole process could be understood in terms of agricultural lobbies and bureaucracy – losing influence and legitimacy within EU 15 –preparing the ground for a major eastward extension of the ruling paradigm in order to maintain the current status quo.

The EU approach sharply moved towards coercive or hard policy transfer. The establishment of the SAPARD Agency itself – a truly Euro-compliant piece of bureaucracy – within the Hungarian institutional system became the main objective (see 4.4.2.). There was no room for adaptation or organic development, the evolution of institutions and procedures was closely controlled by EU officials – trained in the CAP – and the accreditation was set out as a prerequisite of any further progress of the programme. The main object of the transfer this time, therefore, was a highly complicated set of bureaucratic procedures and institutions. For accessing the money, Hungary, and other CEE countries, had to apply the rules of the Guarantee section of the EAGGF (transparency, accountability) in a programme which was otherwise

rooted in the Guidance section (multi-annual programming, partnership, etc.)¹⁹⁶. Fulfilling the requirements of such a mule-like programme caused great difficulties for the Candidate Countries, a problem which none of them has been able fully to overcome. Although most countries have accredited their paying agencies, rural development has had to pay a large price, as all countries reduced their programmes to 3-4 measures, keeping the larger and simpler agricultural measures and missing out most of the rural development ones¹⁹⁷ (see 4.5.). This means losing the notion of integration and bringing little or no innovation to the field of rural development. A great proportion of the features of the programme, coming from the Guidance section (diversity, programming etc.) were sacrificed in order to fulfil the bureaucratic transparency and accountability requirements of the Guarantee section. All in all, the official SAPARD Programme is an 'unmistakable child' of DG Agri, bearing the marks of centralisation, ambiguities and contradictions characterising the CAP. Therefore, one could clearly say that, the official SAPARD programme was deeply rooted in the old modernisation paradigm.

6.2.2. The institutional system – the reflexive agency and the 'bureaucratic machine'

Being rooted in different development philosophies resulted in marked differences of the two programmes in many regards. One of the most important differences, however, concerns the established institutions, with special regard to the SAPARD Paying Agency and the South-Transdanubian Regional Development Agency. These two institutions are difficult to compare, since, working on different levels, they have

¹⁹⁶ Obviously, this was the case for current Member States under the CAP RDR too. Nevertheless, EU15 countries have had many years experience of the implementation and the procedures of both sides of EAGGF – a thing that applicant countries do not possess – and yet have serious difficulties with the implementation of the RDR.

¹⁹⁷ For example Bulgaria, which was first to accredit its agency, had to reduce the number of its measures from twelve to three, keeping 'investment in agricultural holdings'; 'marketing and processing industry'; and 'rural diversification'. Two of these are traditional agricultural measures, complementing or substituting domestic policies, rather than bringing new perspectives into the rural development arena, and the third is almost impossible to implement. On the other hand, according to a Bulgarian official, with the current rules it is almost impossible to reach the small and medium size enterprises (SMEs), under the 'agricultural investment measure', for example. During the first eight months of the programme they ran 64 projects under this measure, only four of which concerned SMEs, the rest being large agricultural producers.

very dissimilar aims and importance within the Hungarian rural development system. However, the disparities in their evolution and working style well emphasise the differences between the two programmes observed in the case studies.

South-Transdanubian Regional Development Agency

The EU designers of the PHARE Pilot Programme did not intend to change existing outdated domestic institutions by trying to make them comply with EU rules. Instead, they supported the establishment of a brand new regional development institutional system complying with EU requirements. Some of the resulting institutions, the Central PHARE Office, for example, were the most advanced sections of the Hungarian state bureaucracy in the mid to late 1990s, surpassing any ministries or domestic policies. PHARE did not intend to decentralise the administration and monitoring from the EU; therefore official control of finances and implementation remained in Brussels (see 3.4.1.). On the other hand, they did not try to implement the policy through a single, centralised domestic level bureaucracy, but supported the institutionalisation of rural, regional development at the lower levels too. The resulting South-Transdanubian Regional Development Council (DDRFT) served as an arena for the harmonisation of varying local interests and gave appropriate legitimacy to fight for central development resources aimed at the regional level. The South-Transdanubian Regional Development Agency (referred to as the Agency below) was an implementing institution to the regional body, providing appropriate expertise, organisation and bureaucratic background (see 5.2.1.).

The implementation of the PHARE Pilot Programme required professional skills and expertise, complying with EU standards, which the targeted localities usually did not have. The Agency acted as an intermediary in this, not simply implementing the programme, but behaving as an active agent (see 2.2.5. and 5.3.3.). It was working at an appropriate level: low enough to have personal connections in local development systems and able to collect and process sufficient local information; and high enough to have adequate influence on stakeholders, to accumulate enough expertise and to have an insight into high procedures and objectives. It effectively filled the gap between the central and local level systems of rural development (see 2.2.2.). This meant mediating, translating, channelling funds and information between local

institutions and the central bureaucratic organisations. The Agency helped to formulate local partnerships and reinforce development networks. It also acted as a temporary substitute for particular missing local institutions if necessary, or helped existing ones to fulfil central bureaucratic requirements. It helped localities to access external development resources, at the same time, providing a more appropriate channel for development resources, offered by the central system. The other essential activity was facilitating the creation of a supportive political and institutional environment for local development activities (see 5.3.2.). This was performed at various stages, especially on the sub-regional and regional level. To achieve all of this, the Agency not only applied unique bureaucratic skills and procedural expertise, but constantly reflected on constraints and possibilities, and behaved as what could be called a '*reflexive agency*' (see 2.2.5.).

The philosophy of the Agency's work was rooted in the 'new rural development paradigm' (see 2.1.). Improvements in the field of programming, partnerships, and co-operation; and a significant change in thinking about development in general were considered to be the main achievements. Its Director and staff were committed to the idea of integrated rural development and to the people they served (see 5.3.1.). Without their work the rural development part of the PHARE Pilot Programme could hardly have been a success. The Agency created significant added value to the development process. To achieve this it needed a high level of freedom, and it also needed to take risks and responsibility. It took part in the design of the PHARE pilot programme and advocated it to all regional actors. It had to face many conflicts and take many risks during preparation and implementation (see 5.3.3.). Furthermore, there was a chance that the Agency itself might break down, if the policy failed for some reason. Even so, the Agency did not try to avoid taking responsibility. Lobbying for more freedom to sign contracts and tenders without involving the EU delegation, or treating regulations in a flexible way meant taking more risks and responsibility. However, these were essential for the successful implementation of the programmes and also were key characteristics of the working strategy of the Agency.

The Agency was not part of the system of traditional Hungarian governmental bureaucracy (see 5.3.1.). However, it was part of a developing parallel institutional system, based on EU rhetoric and the values of territorially integrated development. It

was a quasi-autonomous non-governmental organisation (QUANGO) enjoying reasonable financial independence, and therefore, it could not be simply 'ordered' to follow a certain direction by political forces. This became particularly important when political changes could have jeopardised the work of the Agency and the success of the PHARE Pilot Programme at the same time. The Agency, leaning on its financial and organisational independence could successfully resist political attacks and ensured the continuation of the development process.

SAPARD Implementing and Paying Agency

The accreditation of the Hungarian SAPARD Agency for the first three measures and the actual launch of the Official SAPARD Programme – meaning the start of practical work for the SAPARD Agency – only took place in November 2002, after finishing the major data-collection for this study (see 4.4.2.). Therefore, I am not in the position to be able to assess the efficiency or the practical work of the SAPARD Agency¹⁹⁸. Nevertheless, the run up to its accreditation and its organisational structure provide sufficient information about its role in the Hungarian institutional system and the nature of its operation.

As it was demonstrated earlier, the SAPARD Regulation underwent important modifications between its first and final drafts. Nevertheless, the implementation of the Programme can be characterised with a similar observation. The programming period – up until the acceptance of the Hungarian SAPARD Plan – was dominated by soft policy transfer. The EU applied the rules and the general approach of the EAGGF Guidance section. This period and its consequences brought the most (and mainly positive) effects to rural areas (see 4.2. and 4.5.). Partnerships were created, collective thinking about the future began and a change of perception of rural problems and their possible solutions was initiated at various levels. The next period of the implementation of SAPARD, however, brought significant changes. Concerning the

¹⁹⁸ Moreover, according to my final supplementary interviews, during the first year of the official SAPARD very few projects were supported and only a fraction of the programme money was spent, resulting mainly from the eligibility criteria and other elements of the programme design. Until the mid term evaluation in September 2003, only 0,15% of the programme money was spent on 13 projects altogether. Consequently, for a proper assessment of the practical work of the SAPARD Agency a sufficiently longer time-scale and additional research would be needed.

building of central institutions and detailed procedures, the general attitude of the Commission changed from the approach of the Guidance to the Guarantee section of EAGGF (see 4.4.2.). The policy transfer became 'harder' and more direct and social learning stopped having any relevance, hindering rather than helping the accreditation of the institutional system.

Everything grew more bureaucratic; requirements became more detailed and difficult to fulfil. The whole process was less transparent for the Candidate Countries. Since the rules had not been written down beforehand, they could change and be bent according to the wishes of the auditors (see 4.4.2.). In the words of a Hungarian official speaking about the SAPARD Agency: '...they [the EU] did not want offices with people working in them. They intended to eliminate human decisions in the process, wanted to have a huge living computer, made up of people, buildings and machines – they wanted a bureaucratic machine.' Or, according to another interviewee: 'Commission officials were simply using the accreditation to delay the time before the EU budget actually had to hand out some cash'. All in all, the Commission certainly used the accreditation process for keeping an extremely tight control over the evolution of new institutions in the agricultural bureaucracy and any future spending under the SAPARD Programme (see 4.5.). The resulting institution – the SAPARD Agency – complies with EAGGF rules and is expected to be the forerunner of the future domestic institution managing the full CAP.

One could say, indeed, that the SAPARD Agency has very little in common with the South-Transdanubian Regional Development Agency, though both are the results of EU funded development programmes. As opposed to the latter, the SAPARD Agency is high up in the system; it cannot – and does not intend to – reflect local needs; its sole objectives have been getting accreditation and spending the programme money in an accountable way; and it is acting more as an extension of Brussels administration than as a piece of domestic bureaucracy (see 4.5.). It belongs completely to the 'central development system' and its working style is far from being 'reflexive' – one could say it is deeply rooted in the old modernist paradigm. Compared to the PHARE Agency, another characteristic difference is its relation to risk and responsibility. While the success of the PHARE Pilot Programme was largely due to the 'risk taking nature' of the concerned Agency, SAPARD institutions – accurately following the

guidelines of the Commission – have roughly the opposite strategy. Risk evasion is one of the main characteristics of the presently formulated EU-assisted development institutions (see also 2.2.2.). Though they often have significant influence on the make up and the implementation of political decisions, they hardly take the responsibility for policy failures. Bureaucracies, using their expertise and positional power, usually try to avoid taking risks. They pass it on to elected bodies, to beneficiaries or to lower level bureaucratic institutions. The SAPARD Agency is acting exactly in this direction. Consequently its added value to the development programme is likely to remain small.

Another issue concerns independence. Although the accreditation of the SAPARD Agency was the right of the EU Commission, financially and organisationally it completely depends on the Hungarian bureaucratic system. Albeit having a somewhat privileged position within the Ministry, the SAPARD Agency is still a section of MARD, subordinated not only to the Minister, but even to some state secretaries. As with the Regional Development Agency, the SAPARD Agency at times became a playground for domestic political fights. Nevertheless, while the former – relying on its independence – could normally resist political meddling, the latter – lacking sufficient autonomy – had no chance to do so. As a result, the evolution of the SAPARD Agency was repeatedly interrupted, significantly delaying the implementation of the whole SAPARD Programme and causing many millions EUR loss to the Hungarian national budget (see 4.4.2.).

6.2.3. Failure and success – integrated and non-integrated development

More comparison of the two programmes – concerning their design, procedures, the surrounding social dialogue, social learning, and their integrated or non-integrated nature – follows to enhance the argument in order to explain the reasons of failure and success:

Both programmes were aimed at ‘rural development’ and ‘the preparation of the concerned institutions’, however, they had a fundamentally different design and procedures. Under the PHARE Pilot Programme a range of different local economic development activities were eligible for support under the measures for: the

development and marketing of new rural products; afforestation; and rural tourism (see 5.2.3.). Rural economy, therefore, was treated as diverse phenomena, different from agriculture, to be improved through new, innovative actions. The Hungarian SAPARD Plan – and even more so those measures which actually have been implemented, which were: agricultural investment; investment in processing industry and the development of rural infrastructure – were clearly concentrating on agricultural restructuring, and considered the rural economy essentially equal to the agricultural sector. They did not bring much innovation into the Hungarian rural development arena, but duplicated (or in some cases complement) similar domestic schemes (see 4.3.4.).

During the PHARE Pilot Programme there certainly was some space for the adaptation of rules to the local circumstances (see 5.3.3.). An extensive social dialogue and harmonisation was carried out during the design of the programme, informing potential beneficiaries and also providing them with some influence on important implementation details. Bureaucratic procedures were made as ‘user friendly’ as it was possible while still complying with EU regulations. Applicants were also provided with significant help to write their applications; and later on to meet the high administrative requirements of PHARE during the tendering procedure. Besides the establishment of regional level institutions (the Agency or the DDRFT) the programme was intended to support partnerships, which greatly enhanced the establishment and/or reinforcement of local level development institutions. Measures on the new forms of co-operation, and innovative community development were to enhance this process. Also, in the second round of the programme it was compulsory to have a paid project manager for each of the beneficiaries; some resources were provided for this. According to the indicators of the programme, most resources were intended to be allocated to partnerships of local authorities, SMEs, NGOs and public institutions (schools, for example). This set up often coincided with existing micro-regional development associations, therefore most resources were actually allocated amongst members of these associations. Although, the pilot rural development scheme did not support ‘LEADER-type’ complex programmes, rather the enhanced spatial concentration of the programme often resulted in supporting several connected projects in the same micro-region (see 1.2. and 5.2.3.).

Under the 'official SAPARD', in contrast, there was no comparable harmonisation or social dialogue. Procedures and criteria, set out by MARD, are very complicated even by EAGGF standards (see 4.3.4.). The SAPARD Agency is not meant to provide practical assistance for applicants, but to collect project applications and assess their eligibility – and later their realisation – against the pre-set-up, accredited, 'EU-proof' procedures. Neither local partnerships nor any other institutions apart from the central level were enhanced by the programme. Most project applications are expected for the measure of agricultural investment¹⁹⁹, and – since all rural areas are eligible for support – they are likely to be scattered throughout the country. Therefore, the possibility of any synergistic effects – intended or 'accidental' – is very unlikely.

The exploration of their relationship to social learning can also enlighten some telling differences between the two programmes. In the PHARE Pilot Programme there was a strong element of social learning. For most rural development actors in South-Transdanubia (officials, politicians, local leaders, business man, etc.) the PHARE Pilot Action Fund was the first practical experience with an EU aid scheme. Through the social dialogue and the requirements of the programme (creating partnerships, writing EU-compliant business plans and tenders, etc.) much information was distributed throughout the region. The Agency also organised specific events, conferences and produced leaflets and other written material to distribute appropriate information. All this greatly helped the spreading of endogenous development ideas; informed rural development actors and increased their awareness of possibilities raised by EU membership and the importance of preparation for these future options. Moreover, these achievements logically resulted from the design and original intentions of the programme (see 5.2.3.).

In the case of the SAPARD Programme, most of the social learning occurred during the programming period and falls under the category of what was called the 'side effects' of the programme – micro-regional planning, and effects of the 'pre-SAPARD' programme could be mentioned (see 4.2.). Besides the general EU rhetoric, these effects originated from the understanding of a certain group of

¹⁹⁹ The measure on processing industry is directly aimed at a few large companies, and the rural infrastructure measure – since it has a comparably high upper limit for the budget of individual applications – does not have sufficient resources for supporting a large number of projects.

domestic policymakers rather than the intentions of the programme designers. In fact, the EU approach was counteracting rather than helping these local development effects, and the final start of the Hungarian SAPARD in October 2002, taking away much of the finance, stopped the progress of the 'side effects'. The official SAPARD itself was not intended – and did not – contribute to social learning significantly (see 1.3.3. and 4.5.). However, the difficulties of the Agency's accreditation, and the consequent delay and budgetary losses became widely known by the general public and could be understood as a forewarning to everybody on what difficulties the country should expect after its accession into the EU.

To sum up I would like to compare the PHARE Pilot Programme and the SAPARD Programme to the simple integrated and non-integrated models of rural development (see 2.2.4.). The design and implementation of the PHARE Pilot Programme approximates to the integrated system. Central resources, arriving from the EU budget, supported institutional development (DDRFT and the Agency) at a reasonably local level. Also, flexible rules ensured a high level of subsidiarity for the exact design and implementation of the programme. Resources were then distributed and channelled from the regional level to some pilot areas ensuring a high geographic concentration of development aid. The Agency was standing between the central system (EU and domestic bureaucracy) and the local system (village associations, partnerships, co-operatives, etc.), mediating and harmonising interests and conditions. Through this vertical mediation the local system influenced the design of the programme and could retain some of its influence throughout the programme. As a result, information, tacit knowledge, social networks and innovative ideas could be utilised in the development process and local development resources could be unlocked. As a result, not only the programme money was successfully spent but similarly to the LEADER Programme considerable local financial resources also became involved and a significant added value was generated for the development process.

The implementation of SAPARD, on the other hand, strongly complies with the non-integrated system of rural development (see 2.2.4.). The programme is based on central design and resources; and it is implemented and controlled through a much centralised bureaucratic institutional system. There is hardly any co-operation

between the central and the local system of development: the money is directly delivered to the beneficiaries. Consequently, the establishment and/or improvement of local development institutions is not enhanced, and the local development system does not receive much help in general. Decisions on budget allocation are made according to simple quantifiable indicators, rather than sufficient and coherent information. Instead of complex programmes, single projects are supported; there is little space for synergy and innovation; there is little chance to unlock local development resources which could raise significant added value for rural development.

We argue that PHARE Pilot Programme could well be assessed as a success story. The programme money was spent, in fact several times oversubscribed. Many positive effects can also be observed in various fields, for example: EU compliant development institutions were established and greatly reinforced on the regional level; standard EU procedures were learnt and practiced by officials, experts and local development actors²⁰⁰; possible ways of adaptation of EU rules and procedures were explored; local partnerships and development associations were enhanced; many innovative development ideas were realised; and the overall situation of those backward rural areas of South-Transdanubia which were involved in the programme was somewhat improved. Additionally, due to the delay, the implementation of the PHARE programme coincided with the development of SAPARD micro-regions and their development programmes, and it further enhanced the 'side-effects' of the EU SAPARD programme in South-Transdanubia²⁰¹. I argue that besides favourable circumstances much of this success could be attributed to the fact that the PHARE Pilot Action Fund was characteristically aimed at social learning and soft policy transfer rather than the hard transfer of bureaucratic procedures or core institutions.

²⁰⁰ According to some local project managers: "if the rules do not change again significantly, than the next tender documentation could be prepared by the local development managers with a minor external help from the Agency or some other experts".

²⁰¹ Concerning the 'Hungarian Pilot LEADER Programme', for example, half of the currently supported 12 local action groups are in that area where the PHARE Pilot Action Fund was set up in South-Transdanubia. Considering that the Hungarian LEADER did not have a geographical focus this seems to show quite a strong connection. According to my interviews, in South-Transdanubia there were not any 'dropping out' LAGs, since they were able to meet all the deadlines and other requirements, thanks to their established local institutions and experiences, gathered during earlier development programmes.

The 'official SAPARD', on the other hand, seems to have become a policy failure from a range of different aspects. Endogenous development certainly has not profited much from it. The building of capacities and adequate institutions for rural development on regional, sub-regional and local level is almost totally lacking. There are insufficient resources for identifying real problems, finding appropriate rural development models, building local partnerships, or reinforcing rural communities in any other way. There is no real intention to preserve cultural and natural diversity, neither to explore nor to consider potential local resources. In other words, the endogenous approach is almost totally missing from the pre-accession strategy. Moreover, SAPARD is a failure according to its own inward indicators and objectives as well. The main objective, building appropriate and EU-compliant central institutions has not been fully accomplished by any participant countries, and only a small fraction of the allocated SAPARD resources have been successfully spent up to now. Since most SAPARD countries are going to be members of the EU in May 2004 (which means the termination of the programme for them) there is little chance for the significant change of this situation.

Moreover, the requirement of additionality ties the bulk of domestic and local resources to EU funds and objectives too. In Hungary, with the launch of the SAPARD programme in autumn 2002 much of the system of domestic rural development programmes was terminated, and the allocation of domestic resources for rural development programmes was stopped overnight. At the same time, SAPARD supports much narrower aims with stricter indicators and requirements, meaning that the continuity of financing rural development programmes was broken. Already developed institutions remained with little or no task (the Regional Rural Development Offices, for example), and local development systems were once again deprived of the continuation of funding. Acting in this way, the pre-accession strategy may even prevent endogenous development philosophy and practice from spreading through CEE.

6.3. EU accession and rural development prospects in Hungary

As it was argued in the third chapter, agriculture, rural economy and rural society in general have been major losers from the political and economic restructuring that has occurred since 1989. Economic and social inequalities have been growing between urban and rural areas, and – according to the experiences of the southern enlargement (see 1.2.4.) – this tendency can be reinforced by Europeanisation. At the same time, Hungary has excellent resources (natural, human, cultural and social) for various types of rural development (see 3.5.). In addition, this field is expected to receive significant financial aid after European accession. Nevertheless, this can only reduce detrimental effects, if Hungary – having established EU-compliant institutions and procedures – is able to absorb the EU aid, and, at the same time, the money is delivered to support those projects that can best serve the development of rural areas. Therefore, rural development in general, and the preparation for relevant EU policies, is vital for Hungary.

The EU communicates two rather different – one could say contradictory – messages through the pre-accession policies. One is centralisation and the other is decentralisation. These, together with congruent domestic forces result in parallel processes of centralisation and decentralisation in Hungarian rural development.

The EU force for *centralisation* can best be captured through the requirements of the *acquis communautaire* and conditions of the pre-accession policies. These are most concerned with such principles as transparency and accountability, which are general assumptions of those EU policies traditionally funded by the Guarantee section of the EAGGF. To fulfil these requirements Hungary, amongst other Candidate Countries, has had to Europeanise its rural development system, creating new legislation and institutions principally at the central level.

External pressure however corresponds with *domestic* forces also acting for centralisation. In Hungary, political centralisation has had strong traditions way back in history and has been seen growing in recent years too. Hungarian rural policy making is outward looking, lacks a well thought out strategy, and is driven by political and budgetary concerns, with special regard to expectations about external resources. The main political influence and most resources are controlled by the

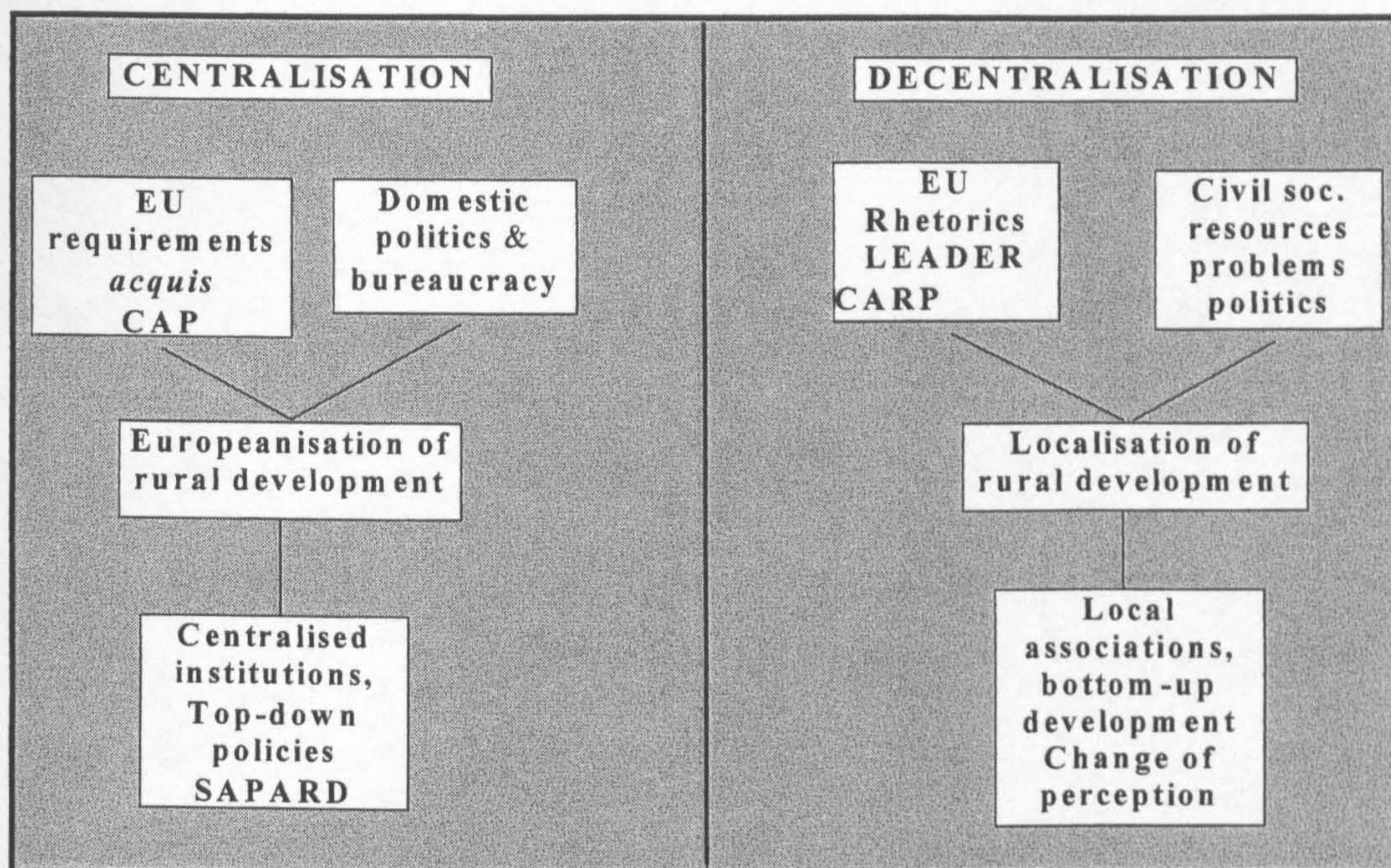
Ministry of Agriculture and Rural Development (MARD). The MARD, together with most agricultural producers and other stakeholders mainly supports a traditional 'agricultural restructuring-type' rural development, which complies with requirements of the *acquis* of the EU. Hungarian politicians have used EU requirements to legitimate domestic reforms, centralisation and the development of central bureaucracy. Centralisation reduces the transaction costs of giving state aid. Looking from the viewpoint of the domestic budget, supporting larger projects, through simple, quantitatively measurable programmes is comparably cheap and easy to legitimise. Additionally, if the decision remains in the centre, it is easier to favour certain groups of producers, for example, having certain political preferences. Unlocking local resources and building local development institutions would require much longer time and it would be difficult for the central system to take credit for such results anyway. In Hungary, since the first election in 1990, the government – and most of the government bureaucracy even on lower levels – has been completely changed every four years. Moreover, there were hardly any ministers who managed to stay in office for a whole governmental cycle. Under these circumstances politicians need quick, safe and calculable results, which are more likely to be provided by centralisation than the long, risky and often difficult ways of decentralisation. On the other hand, bureaucratic institutions, especially under instable political circumstances, can also have a strong will for centralisation themselves.

The other message carried by the pre-accession strategy, however, reinforces *decentralisation*. This is communicated by political declarations, the general rhetoric and some examples, such as the LEADER Programme. This builds on a different selection of EU principles, such as integration, subsidiarity, local participation and sustainability, traditionally more characteristic of the Guidance rather than the Guarantee section of the EAGGF. Some of the requirements (such as partnerships, pre- and post-evaluations, programming, etc.) and the EU rhetoric on sustainability and endogenous development (CARP) had significant effects in Hungary. Positive examples, especially the LEADER Programme, also had a great influence. Initially our politicians and bureaucrats tended to misunderstand the message of the EU, and took the rhetoric of the programmes seriously (in the case of the national SAPARD Plan, for instance). Consequently, central policies sometimes became more

endogenous-oriented than they were intended or expected by the EU – with special regard of the ‘side-effects’ of the SAPARD Programme.

Nevertheless, the EU message for decentralisation could only have perceivable effects, because they met with certain domestic forces. Hungary’s growing civil society found a ‘ready made’ ideology in EU rhetoric for local development activities and a greater involvement of non-governmental actors in development matters (see 4.5.), and today it represents probably the strongest *domestic* pressure for the decentralisation of power and resources in the development arena. Local development associations and their umbrella organisations gain increasing power and influence at the national, regional and local levels. There is a good network of environmental NGOs with a large accumulation of technical knowledge and growing political influence. Local authorities, their development associations and the system of various level development councils should also be considered as important actors, mainly in favour of decentralisation. Apart from civil society, another internal force for decentralisation is sheer necessity. The complexity and the extent of current and expected rural problems of the country does not allow for the waste of local resources or for the single-minded application of central policies. There clearly is great demand for an integrated rural development model with differentiated solutions, which can utilise Hungary’s rich natural, cultural and social resources in order to solve social, economic and environmental problems in the countryside (see 2.2.3. and 3.5.).

Figure 10. Centralization and decentralization in Hungarian rural development



Centralisation and decentralisation are, therefore, parallel processes in current Hungarian rural development, originating from international and domestic forces and circumstances. These two processes are both needed. In fact, they should be coordinated and should complement each other. Without central planning and implementation it would be impossible to build a large-scale infrastructure (motorways, sewerage systems, etc.) considered to be one of the main requirements for catching up with Western economic development²⁰². Without central institutions and bureaucracy, it is impossible to obtain greatly required development aids and programmes expected from the EU. Therefore, the construction of the *central system of rural development* (institutions, networks, procedures, etc.) is obviously essential, as recognised by the EU as well as domestic actors. However, the construction of a *local system of rural development* (requiring institutions, networks and procedures of a different kind) is not less important. Channelling of resources into the areas of highest need and utilisation of endogenous resources are necessary to solve these problems. These can only be achieved through an endogenous development approach.

²⁰² Though, according to environmentalists and alternative economists, this type of development if uncontrolled, poses a threat for Hungary's environment, economy and society.

For this approach local networks, trust, mutual relationships, local development institutions, associations and the empowerment of local actors are essential. These cannot be created centrally, but they can be greatly helped with the provision of financial resources, technical assistance and a generally supportive environment. SAPARD fails to recognise these needs.

Observing EU pre-accession policies and core domestic policies, one could note that their intention is to concentrate almost solely on building the central components of the rural development system. Central institutions were regarded as more important or urgent to develop. EU rhetoric and requirements, and some domestic circumstances contributed to the construction of local components of the system. The EU requirement of programming and social dialogue (see 4.5.), and some smaller aid programmes, such as the discussed PHARE Pilot Programme (see 5.4.); and the approach of the RDU (see 4.2.) or the revival of Hungarian civil organisations (see 3.4.4.) could be mentioned as examples. However, the systematic and centrally supported development of local systems was postponed and regarded as less important by core EU and domestic Hungarian rural policies. This was despite the fact that local institutions cannot be expected to be easier or quicker to develop than central ones. Therefore, instead of co-operation, central and local elements of the rural development system currently seem to be in strong competition for the limited resources in Hungary today. Another way to put this would be that, the evolution of local development systems in Hungary has only received direct financial aid from the centre, if there was some residual money, unused by core programmes – as has happened in the case of most programmes run by RDU, most notably the VFC and the Hungarian Pilot LEADER (see 4.2.).

The main mistake of both the EU pre-accession programmes and Hungarian domestic policies is that the improvement of the two development systems (central and local) was not balanced and there was hardly any connection between them. Political will and economic efforts were mainly supporting the central system and the micro-regional level only received residual, insufficient support – sometimes even running counter to official policies. Until recently, the inadequacy of the central system was considered the most burning problem in Hungary, since without an accredited paying agency the country could not access EU SAPARD aid. Now, after the launch of the programme, Hungarian rural development has to face new problems, arising from

mistaken indicators, over-centralised implementation procedures, and the underdeveloped stage of the local, micro-regional institutional system. According to the experience of those countries in which SAPARD has been active for years now (e.g. Bulgaria), EU aid is extremely difficult to spend according to the strict procedural rules²⁰³. However, this is the only way, since any mistakes lead to penalty and the withdrawal and repayment of significant EU funds. Moreover, most of those resources which have been successfully distributed, supported industrial agriculture and the reconstruction of large food-processing plants (often owned by multinational companies). This may well be important for the competitiveness of the agri-food industry, but has little relevance for the improvement of rural livelihoods and other aims of rural development (CEC 2002).

Hungary is facing similar problems at the moment, having great difficulties with absorbing SAPARD aid in a country which lacked capital investment in its rural investments during most of its history. Nevertheless, the most significant problem for the medium-long term is that, there are too many conflicts and hardly any links between the two currently developing systems of Hungarian rural development. Since appropriate social dialogue is missing (4.1.1.), the local level is not involved in decision-making and has no influence on the objectives and design of future programmes. Central aid is not channelled through the local development system, and rural values are rarely effectively reconfigured and used as resources in the development process. At the same time, information, gathered by the local system, does not reach the decision making level, and therefore cannot help to design policies, better suited to the demands of Hungarian rurality. Institutions, rules, procedures and objectives – similarly to the EU system – do not compose a coherent, integrated system.

As a result, even if Hungary manages to spend the expected, rather narrow, EU resources, the money will not go to the adequate places and people: local resources will not be utilised and as such the efficiency of our development system and policies

²⁰³ According to Commission (2003) during the first 1.5 year of its implementation Bulgaria only managed to spend a bit over one third of the money of which it was eligible. Moreover, only 28 projects, receiving 1% of the EU aid were supported under the 'rural diversification' measure, the rest fall under investment in agriculture and processing industry.

will be very low. As a result, the country has hardly any chance of catching up with the achievements of EU rural policies or of competing with the rural economy of western European countries. For a more promising future, current EU rhetoric should be turned into practice, giving way to social, economic and environmental sustainability; integrating various levels and economic sectors in a coherent integrated rural development system. In this way, many aspects of current 'rural backwardness' could be turned to advantages; local resources could be utilised and Central and Eastern European countries could become the champions of integrated rural development in an enlarged Europe. .

The future of Hungarian rural development depends on how co-operation might be improved between the two approaches. This, similarly to the current situation, is likely to be influenced by domestic and international circumstances. If the co-operation does not improve and core policies ultimately function in a top-down exogenous way in the long term, the realisation of the 'CAP scenario' (see 3.6.) can be expected. This would mean following the way of current Member States, intensifying agricultural production, and reproducing many mistakes of previous and current CAP regimes. Sustainable rural development would have rather limited resources, since many endogenous resources would remain unutilised, and exogenous ones could not be delivered efficiently enough. In the end, Hungary would still lag behind Western European countries at least concerning its rural sector. If an integrated approach to rural development were applied, and the resources delivered through a complete system of central and local development institutions, a very different scenario (see 'CARP scenario' in 3.6.) could be realised. In this way Hungary, amongst other CEECs, could become a testing ground for the principles of sustainable integrated rural development. The rural economy could be diversified, endogenous resources utilised, and central (EU and domestic) aid delivered more efficiently. Hungary would not repeat previous mistakes of the CAP and could make a shortcut, aiming at the philosophy and objectives of the CARP. This outcome, giving a legitimate basis for a European-wide spread of these policies, would be more likely to be advantageous throughout all rural areas in an enlarged EU.

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