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**THE REGIONAL ASSISTANCE SYSTEM OF THE EU AND THE
NORTH GREAT PLAIN REGION**

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INTRODUCTION

The regional (structural) funding policy of the EU is decisively significant for the member states of the European Union. The possibility of development and cohesion of regions with various levels of development (the so-called NUTS 2 level regional units within specific states) primarily depends on it, which is also one of the most important objective and essence of EU funding policy in the „Europe of Regions”. The stake is enormous especially for the underdeveloped regions of Hungary, which can expect significant development funds as a result of EU regional funding policy, since currently about 40% of the European Union’s budget is aimed at eliminating underdevelopment. The various development funds, first and foremost the Structural Funds and the Cohesion Fund are already supporting the regional funding system from this year.

During the development of my dissertation I relied primarily on professional publications, various written sources about history of the European Union and the issues of funding policies, library and press releases, official documents, statistical databases and extensive internet resources as well as my recent practical experiences I gained while working in Brussels.

More than a year after the EU accession we can say that an important period has started for agriculture, villages and rural areas. The common agricultural policy of the EU considers sustainable development and environmental protection to be the most important. Hungary is poor in minerals which set back significant industrial development. The conditions of agricultural development are good, but great differences can be detected in the natural soil fertility, soil water cycles and climatic conditions in various geographic regions. After the structural change in ownership, land use and production structure only partly fits growing site conditions. Natural conditions allow the production of unique, Hungarian products in a number of agricultural regions.

Agriculture plays an important role in preserving the values of the country, in the sustainable development of rural areas, in shaping rural societies and reducing social problems and regional differences. Economic development and the consolidation of market conditions after the regime change in Hungary took place differently in the specific regions, therefore regional differences increased. The North Great Plain region from the seven regions in Hungary is one of the most underdeveloped regions on the basis of various statistical data. In my dissertation I am going to examine the condition of the region along with development possibilities from the aspect of reducing underdevelopment and ensuring sustainable development.

I am going to review regional policy objectives of the European Union and Hungary as well as some of the early results, while providing a survey and evaluation of regional peculiarities in the second year of Hungary’s EU accession. I will also analyse regional disparities in Hungary and especially in the North Great Plain region to search ways of sustaining development.

I wish to examine whether the objectives outlined in regulation XXI of 1996 about Regional development and management, aimed at balancing regional development differences, have been fulfilled and whether the social and economic conditions of the region has improved based on the regional statistics of the Hungarian Central Statistical Office.

It is my objective to reveal development possibilities and methods by assessing the conditions, agricultural land use and regional development concepts of the North Great Plain region, especially in Hajdú-Bihar county. I consider it important to examine whether the regional development and other fundings allocated to this region have contributed to economic development.

1. BIBLIOGRAPHICAL REVIEW

1.1. Historical review and major milestones of the European Union

After the WWII, in Zurich in 1946 the seed was planted by W. Churchill that it is necessary to integrate Germany as well as to have pacification for France and Germany, therefore to set up the European United States.

The next step of the integration was the Marshall Plan in 1948 when the U.S. administration declared that European Co-operation and Economic Integration should be a precondition and openly spoke about the political goal of establishing the European United States against the communist danger.

The foundation documents as the first steps are as follows:

- Setting up the Coal and Steel Agreement (1952)
- Treaty of Rome (1958) Community of European Economic and Euratom Treaty.

The signed EEC agreement played the most important role in the process of the emerging EU that was the most comprehensive document of the integration process to be signed by Belgium, France, the Netherlands, Luxemburg, Germany and Italy on 7th January 1957 and became legal 1st January 1958. The Maastricht Treaty, having been signed on 7th February 1992 in a town in the south of the Netherlands, then became legal on 1st November 1993.

The above listed documents with their modifications – Unification Agreement (1967), agreements on budget (1970, 1975), Single European Act (1987), Amsterdam Treaty (1999) and the Accession Agreement of the new Members (1973, 1981, 1986, 1995) - formulate the EU priority law.

One of the modifications of the Single European Act (SEA) is to be emphasised that it developed the previous Treaties on a large scale and is considered to be the priority source of law. It was signed in 1986 and enforced 1st January 1987. “Single” means that it provides regulations for EC as well as the framework of the political cooperation since 1969. For the implementation of the SEA in 1993 the single internal market started to be operational as well as the four major principles such as the free movement of capital, labour force, goods and services, out of which the free movement of labour force has not been achieved so far.

Having said that, regional policy had been identified as a community policy on the basis of the SEA which declared economic and social cohesion to be common Community goals. New dimensions of Community Structural Support Policy was developing in this direction. The treaty of Schengen demolished the obstacles of the Community border. It was enforced in May 1995.

Milestones for Hungary:

- 1991: EC Joint Agreement with Czechoslovakia, Poland and Hungary.
- 1997: Luxemburg Council meeting made a decision on the start of accession discussions in 1998 with Cyprus and five Eastern European countries (Hungary, Czech Republic, Poland, Estonia and Slovenia). (31st March 1998 Hungary started the discussions which closed at the end of 2002).
- 2002: The number of countries to join the EU had increased and the Accession Document was signed in May 2004.
- 31st May 2003: Submission of the National Development Plan to Brussels.
- 1st 2004 May: Hungary joined the EU.

1.2. Strategic goals and principals of EU regional (structural) policy

Fundamental EU principles such as solidarity, equality and justice cover the major goals: reducing differences in development of its member states, regions, and settlements against regional inequalities as well as the underdeveloped territories catching up, so developing the regions.

Goals related to the establishment of EC (1958) were becoming even more important with the start of enlargement as most of the newly joined countries were less developed compared to the EU average. For the same reason the EC reached heterogeneity of its own when Ireland and Great Britain (1973), Greece (1981) Spain and Portugal (1986) joined:

- Average GDP per capita of the above countries was only 60% of the Member States' average in the second half of the 1980s.
- Differences between the ten most developed and the least developed regions of the community reached the ratio of one to five.
- The unemployment rate ranged from 4% to 25%.
- The population increased by 18%, but unemployment increased by 30% and the population living from agriculture increased by 36%.
- The population of the underdeveloped areas doubled: every fifth person lived in a region where the GDP did not reach the 75% of the Community average (nowhere in Ireland and in the Mediterranean countries).

This situation was applicable at the accession and they expected compensation from the Community to be able to reduce their disadvantages, so the removing of major inequalities and catching up with the most developed had to begin. For this purpose a major community support policy was implemented and 40% of the total EC budget was spent on Structural Funds (*Allen 2000*). Structural Funds are important tools for regional policy as it is the most important common policy to reduce differences between the regions (*Rechnitzer 1993*). *Preliminaries: 1975. European Regional Development Funds + European Social Fund* (vocational training, retraining, support employment) *European Agricultural Orientation and Guarantee Funds* namely its orientation "section" (support agricultural policy through rationalisation and restructuring), *Regional Development Fund, Funds for Orientation of Fisheries* are called Structural Funds. The Cohesion Fund is not included.

Major supports: in the least developed areas the GDP per capita increased from 55% in 1988 to 91% of the EU average in 1998. Greek, Portuguese, Irish and Spanish regions used 100-200 M€ for developing their economies. Structural Funds helped to create and retain 2 M jobs in the EU.

Increased Foreign Direct Investments: Double of the EU support was received by Greece while Ireland received three times more. This was not satisfactory so in 1991 another programme was introduced to encourage more sufficient catching up. The other source of this process is the Cohesion Fund (1993). In the early 1990s the GDP of Ireland, Greece, Spain and Portugal had not reached 90% of the EU average. As it became clear that the regional supports were not sufficient for the poorest countries, the Cohesion Fund of 15 billion ECU was set up to allow huge investments in infrastructure and environmental protection at the national level. In the new budget of 1994-1999 it was increased to 155.1 billion ECU. Therefore development support reached 33.7% of the total budget.

In 1993 the Structural Funds-based support policy of EU included a new source (*Cohesion Fund*) which was set up for the economically least developed countries (Greece, Ireland, Portugal, Spain) in order to support their preparation for Monetary Union. *Cohesion Fund (1993)*: is the fund set up by the Maastricht Treaty (1993). Its objectives are to support the investment in environment protection and trans-European networks. *Only the four poorest countries* (Greece, Ireland, Portugal, Spain) *are entitled to receive this support*. The Cohesion Policy objective is strengthening the economic and social cohesion of the Community with a view to harmonized development of the Community as a whole, moderating the regional differences and minimizing underdevelopment in the least advantageous regions (*Hooghe 1996, Krugman and Anthony 1990, Martin 1999, Rechnitzer 1998*). These are the goals of the Community Cohesion Fund.

The increasing importance of the structural and cohesion policy is shown through the following: 5% of the budget was spent on regional support policy in the 1970s, 10% in the 1980s, and approximately one third in the late 1990s. During the financial period 1993-1999 the Member States spent 0.46% of their GDP on this objective. Fundamental principles such as subsidiarity, decentralization, additionality, concentration, programming, partnership, transparency as serving implementation of Structural Policy forced to modernize the organisational structure at the national regional policy level. In Member States the efficiency of regional development and strengthening cohesion were supported by the systematically applied principles (*Kovács 2002, Midelfart et al. 2002, Sutcliffe 2000, Ziegler 2003*). New Structural Policy objectives having been clearly identified lately as well as supporting competitiveness are going to serve sustainable regional development. Structural and Cohesion Policy was undoubtedly considered to become the EU's most important achievement: through strengthening and extending financial tools of support policy at the turn of the eighties and nineties the felzárkóztatási policy became successful (*Boldrin and Canova 2001, Bolyán 2002, Daniel 2003, Iván 2001*).

While the Member States had increased their GDP per capita by 50% since 1973 to the turn of the millennium, Ireland had increased its own by 300% and was catching up with the EU average, starting from 57% at accession. Spain and Portugal have reached 75% of the EU average since the mid 1980s and it will be catching up with the most developed soon. In the 1990s the EU's least developed countries produced extra growth by 10%. Meanwhile the EU has been becoming a major economic factor partly for the globalisation (15 states, 370 million inhabitants, 7 billion US Dollar of GDP).

Europe has become economic superpower so:

- Equal partner to the USA,
- 60% of USA Foreign Direct Investments are owned by European interest groups while only 50% of EU FDI are owned by USA
- 39% of FDI world-wide owned by the EU while only 21% of those owned by USA
- EU has the same weight as USA in the world biggest leading multinational companies

Hungary and other CEE countries will join such a gigantic European power.

1.3. What to expect after the Eastern enlargement?

As a starting point the conditions of support policy will be more rigid after the second enlargement and the financial resources are decreasing so from 2004 the enlargement creates a completely new situation in many respects. *New situation to be described:*

- Difference in level of development of the new and old Member States is huge compared to the earlier stage. At the accession Ireland and the Mediterranean countries reached 60% of the EC Member States' income level while at present the new states have only the 40% of the old Member States.
- Their economic productivity is about half of the EU15. GDP per capita will be decreasing by 13% because of the newly joined countries with low efficiency.
- Average salary is just a small part of the EU level as Czech, Polish and Hungarian income levels are 15-18% of the Austrian and German ones.
- EU does not undertake the responsibility of giving the same level of agricultural and development funds as was given to the underdeveloped regions earlier.
- For seven years they do not give a green light to new states' free movement of labour force.
- The least developed half of the integrated Europe suffers from globalisation for many aspects so the newly joined Eastern countries' catching up with the most developed could be a long process and may last a few decades.

More new Members States, less support. It is well known that the plan was for six new countries to join from 2002 and they would have received cohesion support and the total structural funds would have been 39.58 billion€. Meanwhile the Member States decided to admit ten new countries but in 2004. Supports of 2002-2003 have not been restructured so the originally planned structural funds for enlargement had to be shared between ten countries instead of six. Meanwhile there was some fear that the newly joined poor countries will need even more financial support and the net paying states will have spend too much for the enlargement so the *central budget had to be maximized at 1.27% of GDP*. The EU can spend 0.46% of its GDP on economic and social catching up while this kind of support cannot exceed 4% of the nation's GDP. Temporary support is given to those regions which have fallen out of the eligible category. Parallel to this another 3.2 billion Euro have been allocated for the pre-accession funds (PHARE, ISPA, SAPARD) for the candidate countries. *In the new Member States* the total support funds reached 22 billion Euro therefore, *the structural supports per capita are only 68% of the EU Member States*. The size of the supports clearly show that the member states are entitled to receive 213 billion Euro in the financial programming period 2000-2006 while the new members will receive only 21.8 billion Euro from 2004 (*Csébfalvy, 1998, Nicolaidis 2003*). Besides they are entitled to spend 5.1 billion Euro of the Agricultural Funds on regional development. It is true that the original budget did not include any direct agricultural support for the new member states (*Forman 2003*). Nevertheless the new Member States' farmers receive one quarter of the present Member States' farmers support so in the coming three years the *new member states can receive a total of 41 billion Euro*. The new member states are involved in the finalisation of the 2007-2013 financial period therefore the ratio may alter.

1.4. The European Union is the „Europe of Regions”

The most important regional policy endeavour of the European Union, and of Hungary as full a member state, is to reduce disparities. The European Union, based on the principles of solidarity, fairness and justice, has dedicated special attention to reducing differences among member states, regions and settlements and underdeveloped areas in general. The termination of underdevelopment and development of regions is the most important strategic objective of the Community and it dedicates almost 40 per cent of its common budget to this depending on the development level of member states and regions (*Horváth 1998, Illés 1997, Keating 1997, Rechnitzer 1998*).

The application of community principles, subsidiarity, decentralisation, additionality, concentration, programming, partnership, transparency, in the member states of the European Union has increased the efficiency of regional developments and strengthened cohesion, which was an essential precondition of modernising the national regional political organisation system (*Horváth 2000, Illés 2002*). Lately, the new assistance objective is becoming clearer which is aimed at developing competitiveness and the sustainability of regions. The success of the common regional and structural policy is highlighted by the fact that differences in economic, income and supply indicators between underdeveloped and developed regions of European Union are becoming smaller. The previously underdeveloped regions are showing signs of development, the decaying industrial regions are revitalising and villages are progressing (*Horváth 2003, Rechnitzer 1997, Richardson 1969*).

With the accession of new countries with weak productivity, such as Hungary, the GDP per capita has immediately decreased by 13 per cent which is important from a regional development policy point of view. According to the cohesion report published by the European Commission in January 2003, countries with a consumer power parity below 75% can still apply for regional development funds. All this implies for accessing countries that regional concepts and practice have to be implemented and applied. A basic principle of accession to the European Union is to strengthen the institutional system of regional development, organise the programming (planning-statistical) regions. The regional and county development councils prepare their programmes and their implementation, as well developing central coordination making the responsibility attached to accessing EU funds clear.

The regional units in the European Union have dual functions: on the one hand they promote the reduction of regional differences, on the other they ensure communication among public administration tasks, the organisation of regional tasks while reducing differences among local territorial units. The reduction of regional differences was defined as an objective in the 1987 European Treaty Act of Rome which was signed in Maastricht on 7th February 1992 and came into effect after its ratification on 1st November 1993. Known as Treaty of Maastricht, it strengthened these principles and defined a recommendation for infrastructural development and treatment of environmental problems to reinforce the cohesion of the European Community and to organise the new, regional financial fund for these objectives. Accordingly, the European Union, by considering the expectations of Eurostat, has established the Nomenclature of Territorial Statistical Units – NUTS, which is the most suitable classification system for examining the regional problem of the Community and regional economic capacity. The system developed by Eurostat, distinguishes among three regional (NUTS 1–3) and two local (NUTS 4–5) levels, which do not have direct legal basis, but it is used as a tool to identify target areas in the Council

decree 2052/88 about the distribution of structural funds and these provide the basis for regional social-economic evaluations and statistical data collection. (Based on the decree by the Council of the EC, the NUTS 2 level is applied for evaluating the social and economic situation of EU regions.)

The Nomenclature of Territorial Statistical Units (NUTS) was originally established by Eurostat to provide a unified regional classification for statistical purposes in the EU. The continuous expansion of the EU highlighted the importance of reducing differences in development through harmonising economic policies and financial funds (*Inotai 2004, Horváth 2001*). Therefore, a unified regional statistical system was essential to establish the background for regional policies at a community level.

1.5. Regionalism in Hungary – Hungarian regions in the European Union

Parallel with Euroatlantic accession processes, the organisation of regions as renewing economic units has begun in the mid-1990s. Despite this, the majority of the public remains unclear about the concept as they are used to a public administration system based on counties. So far, regions only existed as primarily planning-statistical units but the methodology is becoming attached to the regional development standards of the EU, and is gaining importance in regional policy. The time is approaching when they can gain public administrative roles and become local government regions according to EU expectations.

The decree of XXI in 1996 about Hungarian Regional Development and the regulation 35/1998 (III 20) about the National Regional Development Concept has established the planning-statistical units according to NUTS which was accepted by Eurostat on the basis of the recommendation by the HCSO. On the basis of this 3,145 local settlement governments (NUTS 5) and 150 small regions (NUTS 4), and an additional 19 county and capital regions (NUTS 3), 7 planning-statistical regions (NUTS 2) and national level (NUTS 1) were established (*table 1*).

Table 1. Regional levels in Hungary according to the NUTS-system

Level	Name	Number of units
NUTS 1	country	1
NUTS 2	planning-statistical region	7
NUTS 3	county (capital)	20
NUTS 4	statistical small region	150
NUTS 5	settlement	3,145

The 19 counties of Hungary and Budapest, according to the regulation 1996/XXI which provided the foundation for the 1998 National Regional Development Concept, are classified into seven regions so that the regional development policy can be implemented according to the system of the European Union. The national regional development programme was prepared according to this regional, geographical classification. The tasks are carried out by specific regional development councils and their operative organisations, such as regional development agencies, which coordinate funds, projects and small regional operations (*Harsányi et al. 2003, Kiss 1997, Kovács 1997*). The specific counties were classified according to population and settlement number. Another important organisation rule was to classify counties according development level, and their

connections and ties among each other from economic, cultural, touristic and infrastructural aspects (*Kürthy and Szűcs 1999, Pálné 1999, Ránky and Jobbágy 2003*).

Upon evaluating social-economic processes we can find that regions (NUTS 2) or so-called meso-levels have an outstanding role in influencing social processes. Two important principles dominated in the 35/1998 National Decree that accepted the National Regional Development Concept that established seven regional units: (a) the borders of regions are in accordance with county borders; (b) the population of regions is almost identical in scale (except for the Transdanubian region, where the population is almost three times the average). The planning-statistical regions, the NUTS 2 levels, as outstanding funding objectives, are regarded as the most important fund obtaining categories in the regional funding system of the EU, especially from structural funds. None of the seven planning-statistical regions covers totally homogeneous areas. At the same time it is clear that all of them have distinctive profiles, the counties making up the regions are similar in development and almost identical in geographic characteristics (*Enyedi 1993*).

The basic principle of establishing individual regional roles and functions is to create a sufficient contact system among regions and the capital. The regional role is only effective if it is complemented by outward social and economic ties (*Horváth 1997, Nemes Nagy 1998, Palánkai 1998, Pálné 1996*). Regional borders in the European Union are stable. At the same time, regions are open to any collaboration among each other, which is in the interest of mutual development. Regional units and borders are primarily based on public administration distribution and normative aspects. The established regions are the result of compromises in accordance with regional policy principles of the Community.

The regulation of 1999/XCII based on the XXI regulation of 1996 has reinforced the grounds on which the seven planning-statistical regions were established which was approved in National Regional Development Concept of 1998, then the Government decree 3102/2000 (XII.19), according to which the sustainability of the current regional classification is justified. Consensus was reached among professionals regarding this, since most agree that a possible revision and restructuring could harm ongoing planning operations, as a result of which the development concept of regions has begun as well as the development of strategic programmes based on these (*Dupcsák et al. 2000, Enyedi and Horváth 2002, Faluvégi 1997, Hehér 1998, Nemes Nagy 1991*). These have to be emphasised because regionalism is still a much debated issue. We can expect certain changes though the sustaining of the seven regions is also supported along with its related public administration reform. Many still favour counties as the standard level of regional development units (*Dorgai et al. 1998, Faragó 1994, Zongor 1998*).

The changing alternatives can be expected in these three directions:

- The NUTS system would establish according to the recent offer by the European Union the following: NUTS 1. 3.000.000–7.000.000 million; NUTS 2. 800.000–3.000.000; NUTS 3. 150.000–800.000. This classification would separate three major NUTS 1 (parts of the country) levels, Transdanubia, East-Hungary, Central Hungary and Budapest (the latter is only close to the minimal level).
- Regarding the NUTS 2 regions (province level), the majority of professionals are suggesting the sustaining of the current seven region classification, but there is a concept which would separate Budapest from Pest county and thus establish eight medium levels. Many people are also in favour of joining the Central Transdanubian and Western Transdanubian region thus classifying six regional levels.

- Finally, the concept with the most reality would increase the number of small regions from 150 to 168 and that would correct current problems and debated issues of small regional classifications, by creating a few small regions. A general agreement regarding this already exists and the government proposal has been prepared for the new small regional classification.

Debates can be expected regarding the above mentioned concepts and these will probably be settled years from now, along with the much-debated issue of establishing real local government regions and realising a public administration reform. It looks certain that the current seven planning-statistical regions will remain a decisive level in Hungarian regionalism, according to which NUTS 2 level is the actual regional level which covers 21.000 square kilometres on average in the European Union and includes about 1.7 million inhabitants, while in Hungary this is around 13.3 thousand square kilometres and 1.45 million people similarly to data of Portugal (*table 2*).

Table 2. The main characteristics of NUTS 2 type regions in Hungary in 2001

Region	Area (km ²)	Population (1000)	Counties (capital)	Number of small regions NUTS 4	Settlements	EU GDP %
Central Hungarian	6.919	2.829	2	15	185	77
Central Transdanubian	11.236	1.121	3	23	405	47
Western Transdanubian	11.209	1.003	3	21	648	58
South Transdanubian	14.169	993	3	22	653	39
Northern Hungary	13.429	1.297	3	23	603	34
North Great Plain	17.729	1.559	3	23	387	33
South Great Plain	18.339	1.373	3	23	254	38
Hungary	93.030	10.175	20	150	3.135	51
Regional average	13.290	1.454	3	21	447	51

Source: HCSO Regional Statistical Yearbook 2002.

Notes: GDP data of 2000.

The HCSO reported this regional classification made up of seven units to Eurostat, as well as calculating GDP for these regions since 1996, and has been publishing a large amount of information since then, based on data collection organised for this specific classification (*table 3, figure 1*).

Table 3. Regional classification (NUTS 2) and county (NUTS 3) classification in the NUTS system of Hungary

Regions	Counties making up the regions
Central Hungary	Budapest and Pest county
Central Transdanubia	Fejér, Komárom-Esztergom and Veszprém county
Western Transdanubian	Győr-Moson-Sopron, Vas and Zala county
Southern Transdanubia	Baranya, Somogy and Tolna county
Northern Hungary	Borsod-Abaúj-Zemplén, Heves and Nógrád county
North Great Plain	Hajdú-Bihar, Jász-Nagykun-Szolnok and Szabolcs-Szatmár-Bereg county
South Great Plain	Bács-Kiskun, Békés and Csongrád county

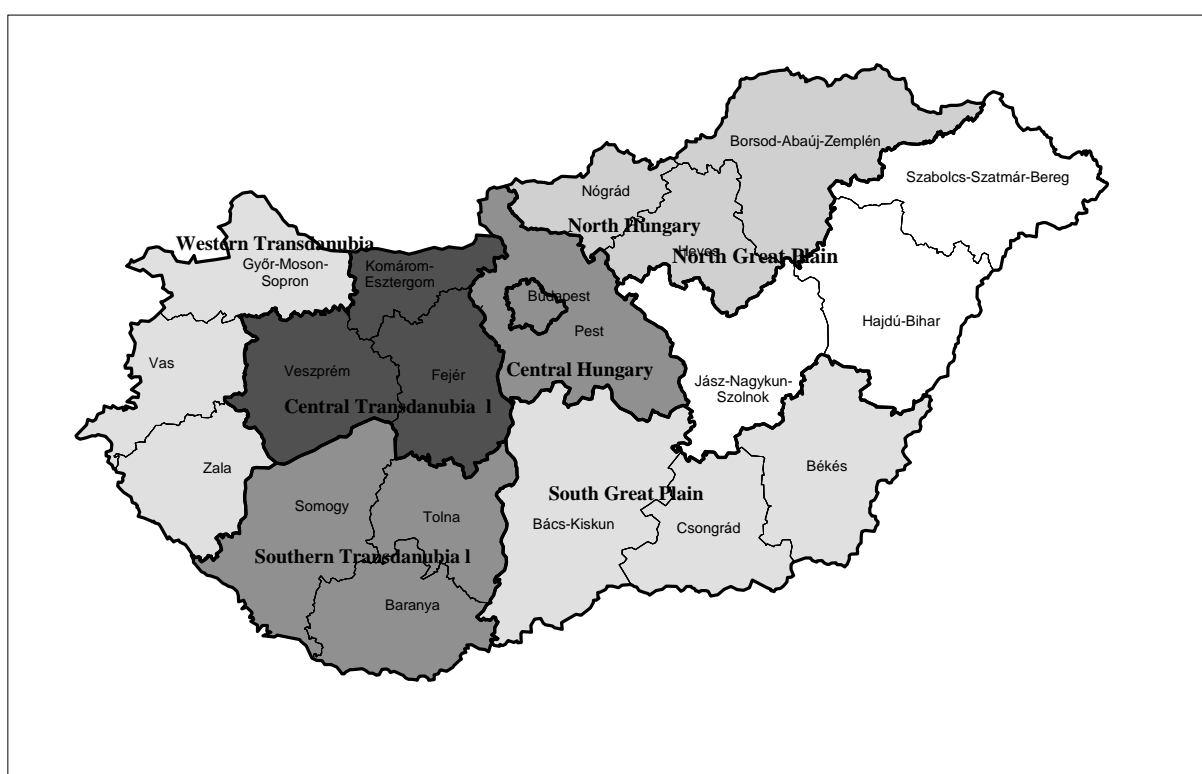


Figure 1. Statistical regions in Hungary (NUTS 2)

Source: HAS RKK Debrecen Department

The increasing importance of regions in the regional (structural) funding system of the European Union is highlighted by the fact that the 260/99 decree of the European Union connects the identification of underdeveloped regions and the preparation of programmes to the NUTS 2 level. According to the Agenda 2000, which serves the transformation and reform of EU structural and cohesion policy, regional development programmes have to be developed for NUTS 2 level units where structural policy objectives and regional actions have to be integrated to ensure the foundation for developments. All these increase the

roles of regions, not just during the planning phase but also during the implementation of development programmes. According to the joint EU position, all Hungarian regions can be classified into no. 1 (underdeveloped) funding zone.

It is a different issue that until actual, local government type regions are established, Hungary is considered as one region similarly to other countries in their pre-accession phase. The National Development Plan that has been completed recently contains a Regional Operative Programme for the seven regions though development concepts have already been included in the National Development Plan (*Horváth and Illés 1997, Horváth and Szaló 2003*). The efficient implementation of the regional programme will determine whether the Hungarian regions can submit their own operative programmes for the new financial period starting in 2006 (*Hörcherné 1998, Illés 1996*).

1.6. Areal units within Hungarian regions

The NUTS system in the European Union has been established upon the public administration structure of individual member states for practical reasons, considering the borders of existing, institutional units based on normative criteria. For pre-accession countries however, this is a task for the future. At NUTS 2 regional levels, or at sub-regional levels the two local levels are small region (NUTS 4) and the settlement itself (NUTS 5).

The small regional system, established by the Hungarian Central Statistical Office in 1992-1193 and initiated on 1st January 1994, was required for the extensive (regional differences, infrastructure, employment, unemployment, population supply etc), regular statistical evaluation of regional units. The HCSO defined small regions as follows: The system of statistical small regions is the comprehensive system, covering the whole country that does not extend over county borders (*Csatári 1996, Szaló and Miklóssy 1996*). A small region is the joint system of settlements based on actual labour, residence, transportation and secondary service (education, healthcare, commerce etc.) relationships. Settlements in a small regional system are connected to one or more central settlement.”

The small regional system in Hungary, currently consisting of 150 units, is not yet organised on a public administration basis but rather on local regional levels determined statistically. The previous system was based on administrative and organisation functions. These units were suitable for daily contact among settlements. The number of these so-called settlement units was between 90 and 150. In the currently used statistical small region system, 148 out of 150 statistical small regions have a city as a centre. In 57 small regions, there are 1, 2, 3 or 4 cities beside the central city as co-centres.

The fact that the statistical small region system was made a basic unit by the regional development regulation lead to changes in the organisation of local government. The chairmen of county assemblies and regional development councils were asked to develop the initiatives for modification, where the principles used for establishing the statistical small regions were taken into consideration. The HCSO modified the system of statistical small regions based on the submitted proposals and professional requirements by 1st August 1997.

The local government regulation accepted in 1990, based on the full, equal rights of local governments, did not distinguish regional levels within counties. As a result, small regional units cannot be defined from a public administration point of view. In recent years however, certain public administration, service and in general the „manager” type activities have been established according to statistical small regions. This includes the establishment of administrative offices, the network of small region managers, banks and insurance offices,

information and communication service offices. The modification proposal of the XXI decree of 1996 about small regions is aimed at developing the small region structure and correcting the previous problems by establishing real public service and administration functions to small regions and decentralising the existing system.

Most debates regarding regional levels surround the expected role of counties. Current European Union concepts are relying less on counties with actual public administration functions (NUTS 4) beside regions with actual local government authority (NUTS 2), though in Hungary they are more accepted and have a strong roots and traditions not to mention their practice in public administration. The future reinforcement of regions is fundamentally affecting the county level and this raises questions about county developments. According to a widely acknowledged compromise among professionals, levels 2 and 3, or regions as well as counties, are both needed in the NUTS system. The two do not exclude one another and reasonable division of labour and authority can be established between the two levels, acknowledging the fact that regions have a priority in the accession to the European Union, in the development of programmes and in obtaining development funds while small regions also have a highlighted role. It is still possible though that counties, due to their great tradition and strong identity, will have a sustained role in Hungarian regional development, such as the role of Hajdu-Bihar in coordinating and serving the North Great Plain region and the surrounding small regions. Naturally, the above mentioned does not affect the great degree of independence and authority of the currently operating 3,145 local governments ensured by the local government regulation of 1990.

1.7. The development of EU regional assistance policy

Regional assistance policy was not included as a community objective in the *Treaty of Rome* (1958), the treaty only defined the requirement of harmonious economic development of member states. The Treaty of Rome, the treaties of the *European Economic Community* and *European Atomic Energy Community* were signed on the 25th March 1957 and came into effect on 1st January 1958. *The treaty that established the EEC is far more important.* The European Economic Community, EEC, is an organisation that began its operation on 1st January 1958 and its primary objective is to promote cooperation among member states thus contributing to the improvement of living standards and the unification of Europe. The introductory section of the treaty includes the most important objectives of European integration (e.g.: the integration of European people, the economic and social progress of countries, increasing employment and welfare, preserving peace and freedom).

Regional assistance policy is not included in the *Treaty of Rome* and this was understandable since the then established *European Economic Community*, excluding parts of southern Italy, was quite homogeneous in economic development. The community support of underdeveloped regions in the 1960s was only expressed in loan schemes and agricultural support policy of the *European Investment Bank* (the joint bank of EU member states, with the objective to support important investments).

The financial union concept in the beginning of the 1970s was defined in the *Werner Plan* (the first plan of European economic and financial union – 1970), however the effects of the first expansion and the consequences of an economic crisis called the attention to underdeveloped regions and the importance of their assistance.

As a result, the *European Regional Development Fund* was established in 1975, with the task to reduce economic and social differences within the *European Economic Community* (1958).

The objectives of the Fund:

- reducing differences in development on a general level,
- complement the two, *previously established* funds; the *European Social Fund* (1960) and the activities of the *Orientation section* of the *European Agricultural Orientation and Guarantee Fund*,
- the latter three and the Regional Development Fund (1975) jointly are referred to as Structural Funds.

The change was significant regarding the importance and impact of regional assistance policy among community policies with the *accession of Mediterranean countries* (1981 – Greece, 1986 – Portugal, Spain). The reason for this was that economic differences increased considerably with the southern expansion of the EC. *The population of the EC increased by 22% with the accession of the three countries, however its GDP only increased by 10% (table 4).* As a result, the EC became a relatively heterogeneous area, where the ten most developed regions had three times the GDP than the ten most underdeveloped. However, the underdeveloped southern states have emphasised that they expect compensation from the Community to reduce their economic disadvantages.

Table 4. GDP per capita according to member states in the percentage of the community average 1995.

Member states, GDP % per capita

Austria	109.3
Belgium	110.4
Denmark	112.0
United Kingdom	98.2
Finland	92.5
Greece	60.0
The Netherlands	100.4
Ireland	85.3
Luxemburg	106.7
Italy	101.7
Portugal	67.9
Spain	76.1
Sweden	95.3
France	107.2
EU-15 total	100.0

Source: Court of Auditors

The tight resources of the *European Regional Development Fund*, along with the funding mechanisms that were not really suitable for wide scale activities have narrowed down regional development possibilities in the EC even prior to the expansion. This initiated the *regional assistance reform* in 1985, resulting in the *Single Act* a year later, which created a new foundation for the regional development system of the community. The Single

European Act which further developed the existing treaties of the EC, *is one of the primary legislative sources of the EC* in itself. It was signed in 1986 and came into effect on 1st June 1987. The word „single” refers to the fact that it regulates both the framework of European political cooperation as well as the EC since 1969.

Essentially, since the Single Act complemented the Treaty of Rome and declared economic and social cohesion as the objective of the Community, *this meant that regional assistance policy was acknowledged as a community policy*. Thus, the new dimensions of Structural Funding System were formed.

Certain effects of integration also justify the provision of *regional structural transfers*:

- The individual community policies, objectives in themselves can induce regional differences, which will occur as justified compensation claims.
- Transferring to higher integration level is often more problematic for underdeveloped countries (therefore they are eligible for structural funds to assist their preparation).
- In connection with the aforementioned, structural funds are very much focused on infrastructural developments (this can contribute greatly to establishing equal conditions in the specific member states).
- Balancing infrastructural conditions also contributes to the stronger cohesion of the integration and to homogenisation (which is ultimately the interest of all member states, since it allows the better exploitation of integration advantages).

The most important result of regional, structural funding policy initiated in the mid 1980s:

- the coordination possibilities of different funding activities were established,
- the gradual transfer from independent project financing to a more complex, programme oriented funding system was implemented,
- more concise objective systems were identified with the transformation of structural funds.

In 1993 a new fund (Cohesion Fund) was added to the assistance policy which was based on structural funds and was originally created to help underdeveloped member states (Greece, Ireland, Portugal and Spain) to prepare for monetary union. The Cohesion Fund is a fund established by the Treaty of Maastricht. Its objective is to support environmental protection and trans-European network investments (*Bachtler 2003, Bauer 2001*). *Only the four poorest member states (Greece, Ireland, Portugal, and Spain) can receive funds*. The budget for the 2000 and 2006 period was determined in 18 billion Euro (*Stahl and Lluna 2003, Miklóssy 1997*). The objective of cohesion policy is to strengthen the economic and social ties within the Community, promoting harmonious development and especially reducing differences among the various regions. The Cohesion Fund was established to serve this purpose.

The importance of structural and cohesion policy is highlighted by the fact its impact on community expenditures and its place in the community budget has increased dynamically from the mid 1980s:

- about 5 percent of the budget in the 1970s,
- about 10 percent of the budget in the 1980s,
- 33% of community expenditures from the second half of the 1990s.
- 0.46% of the total GDP of member states between the 1993-1999 financial period is dedicated to this objective annually.

As a result, structural and cohesion policy became one of the biggest achievements of the European Union by the 1990s and by strengthening the financial instruments of funding policies by the turn of the 1990s it prevented the deepening of regional differences. Programmes implemented by the European Union have contributed to the development of regions; the formation and revitalisation of cross border regions; the closer cooperation of compatible regions; and bringing together the different nationalities of the European Union (*Kengyel 2003, Madari 2001, Moussis 2003*).

The biggest result of regional funding policy: it was proven that the European Union can operate similarly *federal state unions*, and distribute significant funds for regions that need it the most. All this strengthened solidarity and the cohesion of integration even more. *Federalism* is the principle where member states in a union do not give up all their jurisdictions. One of the advocates of federalism is the Federal Republic of Germany, which is also based on federalism.

Results of structural and cohesion policy:

- the advantages of EU membership were revalued, both for countries in the inner and outer peripheries of the EU (*Ottaviano and Puga 1998*).
- The accessible funds for poorer regions and member states are very appealing to central, eastern and southern European countries that are already considering accession.
- The accession of the latter states is a great challenge for the structural and cohesion policy of the EU, since the accession of underdeveloped states does not only require a significant increase in funds but also endangers the beneficiaries of current funds especially regarding the amounts of accessible funds (*Puga 2001, Tarschys 2003, Winnett et al. 1997*).

1.8. Agenda 2000 – the latest transformation of structural and cohesion policy

The latest expansion and the maintenance of the regional assistance policy was targeted in March 1999 in Berlin with the approved Agenda 2000 reform package, specifically with the regulations affecting structural and cohesion funds, which restructured the financing system of structural and cohesion policy.

Eastern expansion(s): the upcoming expansion of the European Union with central and eastern European countries, as well as with Malta, Cyprus and Turkey. This will probably be carried out in several stages. *Southern expansion*: the southern expansion of the EC which made Greece 1981, Spain and Portugal in 1986 the member of the Community.

Reasons of the transformation:

- the eastern and southern expansion of the Union from 1999
- the average of EU development level will decrease but everyone wants to get a share from EU funds
- three challenges: reinforcement of the Union, reform of community policy, initiation of accession discussions, financing the accession in a way that is favourable for the development of domestic Union policy
- Institutional reform: the status of the Committee's chairman was strengthened; at the same time the instruments of European Parliament aimed at monitoring the Commission were developed

- the objective of domestic policy development was to accelerate economic growth and to improve the quality of life
- altogether this means the reform of structural and cohesion policy

The community structural and cohesion policy is achieved through the so-called Structural Funds and the independent Cohesion Fund which was established in 1993. Probably the biggest results of Agenda 2000 are the decisions regarding the reform of structural and cohesion policy, since they did not only wish to make the utilisation of community funds more effective based on previous experiences but they provide an opportunity for expansion by not reducing the available funds for current member states.

With the accession of Mediterranean countries, new objective systems along with the instruments for implementation had to be defined by considering the new circumstances of the Community.

The most important objective in the interest of strengthening economic and social cohesion is supporting efforts through Structural Funds:

- the harmonious and sustainable development of Community economic activities,
- ensuring competitiveness,
- sustaining the high level of employment,
- equal opportunities for men and women,
- high level of environmental protection and conservation..

The integration of these objectives has to be carried out with the planning and implementation of Structural Fund programmes.

Structural Funds is the collective name of four EU financial funds:

- *European Regional Development Fund (ERDF)*, the first financial fund, which contributes to the support of developing regions with structural problems due to economic and social transformation.
- *European Social Fund (ESF)*, which is aimed at implementing the employment strategy of the Union.
- *Orientation Section of the Financial Instruments of Fisheries Guidance (FIFG)*, which assists the development of agricultural and fishery structures but also has an active role in financing rural development tasks.
- *Orientation Section of European Agricultural Guidance and Guarantee Fund (EAGGF)*, which contributes to the implementation of the Common Agricultural Policy through improving the efficiency of production, the marketing of the sector and improving the potency of local agricultural regions.

The identification of supported regions and areas is based on the classification system of the Community, the Nomenclature of Regional Statistical Units (NUTS), which was established by the Statistical Office of the EU jointly with national offices.

The NUTS classification is the following (comparison is only approximate, since the Hungarian equivalents have not yet been finalised):

- NUTS 0 – member state, irrespectively of size (so Germany and Luxemburg are both NUTS 0)
- NUTS I – province, or region groups excluding Germany where this the province level
- NUTS II – province level or regions (this was about seven planning statistical regions in Hungary in 1998)
- NUTS III. – county
- NUTS IV – about the district level (this was 150 statistical small regions in Hungary in 1998)

The efficient concentration of funds has to be focused on those underdeveloped regions, where the GDP per capita is below 75% of the Community's average. The definition of areas in economic and social transformation covers those countries where the industrial and service sector has gone through a transformation or the agricultural regions with a decreasing population; or problematic urban regions; or depressed areas with a strong dependency on fishing.

The Community focused on those regions in the most severe condition that have been recommended by member states. Annually, two thirds of all accessible funds had to be concentrated on underdeveloped regions.

With the integrated approach of developments, actions had to be concentrated on regional levels, in accordance with:

- the operation regulation of different funds,
- the priorities of the Community,
- the economic and social policy of member states,
- with employment strategies and most importantly with the regional policy of member states.

2. MATERIALS AND METHOD OF RESEARCH

2.1. Principles of structural fund utilization

Since the beginning of their operation, the signing of the Treaty of Rome, Structural Funds *have been utilized according to the following most important principles:*

Principle of utilization according to comprehensive objective system

This means, that structural policy aims to reduce problems in specific priority areas according to a comprehensive objective system based on the coordination of different funds. The five principles that have to be followed during the utilization of EU funding programs are:

- partnership
- programming
- additionality (co-financing)
- concentration
- and project monitoring

Principle of complementarity and partnership

Partnership is the institutional coordination of decisions that have an impact on the regional development of organisations from different sectors, ownership and activity backgrounds. Partnership includes also includes complementarity and contribution by the Community to the success of national action programs. Regional and local governments, other competent organisations, economic and social partners as well as other interested organisations participate in the partnership between member states and the Community. Partners cooperate in all phases of programming, planning, financing, implementation and monitoring. The recipients of funds are usually not governments of member states, but regions, local governments with the ability to implement programs through institutional system.

Principle of programming and coordination

Programming is a bottom-up strategic and operative planning, development priorities and funds conformed to legitimized strategies where individual project financing was replaced by the funding of complex programs. Programming is an organising, decision making and financing process which contains the implementation phases throughout many years of cooperation between member states and the Community. Member states prepare Comprehensive Development Plans according to objectives. This is a documentation which contains development strategies, priorities of planned actions as well as related objectives and planned financial sources through the evaluation of current situations, considering community objectives and priorities. These are submitted to the European Commission, that decides about the Community Funds which is the approved version of the development plan proposed by the member state. It contains strategies and priorities of the action programs, along with special objectives and the contribution from Structural Funds. The Operation Program, which is approved by the Community Fund Committee,

contains those actions which are to be implemented on the basis of accepted priorities and programs of many years, as well as the finance forms of funds provided by Structural Funds. The Community Funds and the Operation Programs are published jointly in the Simple Programming Document, which is also approved by the Commission.

Principle of additionality (co-financing)

Concentration and additionality: clearly distinguished development categories, combined funding and not community finance assigned to sectoral priorities serving economic growth and structural transformation. Additionality, within this means that applying organisations and individuals also have to be aware that EU programs do not provide full financing for any type of project. A significant portion of the expenses have to be financed from own sources, bank loan or other resources of the beneficiary state, end user organisation or private entrepreneur. In other words, fundings from the European Union are additional. They are aimed at helping those who are willing to help themselves and make efforts expected from them. Additional sources in the EU mean „own contribution” beside the funding from the European Union.

This principle means, that Structural Funds cannot replace the structural policy expenditures of member states. The community and member states have to concentrate their resources to regions that belong to objective 1. during the whole programming period. In the case of regions that belong to objectives 2. and 3., expenditures have to be directed to active workforce market policy. Member states cannot reduce their expenditures from previous fiscal periods on structural operations. Checking of additionality happens three times during the fiscal period. First during the pre-evaluation of programming documents, secondly during mid-term until December 31st, 2003 and finally at the end of 2005 within the framework of the final evaluation and control. It has to be mentioned that according to the principle of compatibility, Structural Funds have to be in accordance with the founding document of the EU and the applied instruments of other EU institutions.

The principle of concentration

During the compilation of complex sectoral and regional plans, a large number of various problems and possible development objectives have to be taken into consideration. Some of the objectives are going to be in conflict with each other and often various alternatives occur to solve the problem. It is quite common that the available development funds in a given period only cover a part of the requirements.

Therefore, it is necessary to concentrate our efforts regionally according to sectors. The complex development programs always have to be established on a clear objective hierarchy. The order of importance among different objectives have to be reflected in the sequence of actions and size of allocated funds. *The principle of concentration refers to the assignment of objectives, instruments, activities and resources to each other including the setting of priorities and the ability of efficient decision making.*

2.2 Obligations of monitoring and supervision

The preparation and implementation of EU programs is strictly monitored all along by the government and the authorised organisations (different monitoring committees, National Monitoring Office, National Audit Office, the European Committee, the European Audit Office and external auditors on the basis of ad hoc engagement agreement) of the EU. The method of program implementation is precisely defined in the financial memorandum. The strict regulations of fund utilization are defined in international agreements and laws set by the EU. Governments are fully accountable for the use and expenditure of funds as well as for the program implementation according to original objectives. The additional principle from 2000 is the *principle of efficiency*.

The establishment of monitoring system for the utilization of specific financial funds by the European Union is defined in the government decree 124/2003. (VIII.15.). It determined the monitoring organisations for EU domestic funds. The *Central Monitoring Committee* (CMC) was established to track and evaluate international aids and to initiate actions in the interest of coordinated and efficient implementation. It is the global monitoring, coordination and evaluation organisation of complex funding systems. *Joint Monitoring Committee*: organisation established for joint monitoring activities to be carried out by European Union and Hungarian experts, which supervises and coordinates the implementing processes of objectives within funding programs financed by the European Union (PHARE, ISPA, SAPARD). The *Guiding authority* in the case of SAPARD is the Ministry of Agricultural and Rural Development, while in the case of Structural and Cohesion Funds these are organisations appointed by the Government. The guiding authority appointed by the member state is a public or private organisation, regional or local authority that manages funds provided by the European Union.

2.3. Databases of the research and methods of analysis

The data and information base of my research comes from annual agricultural reports, the regional development regulation of 1996, the related Parliamentary Decisions and implementation decrees, the National Development Plan and Operative programs. The data have been collected from Regional Statistical Annuals of Hungarian Central Statistical Office (HCSO), Agricultural Statistic Annuals and other publications about land use and regional data. The general agricultural census database (ÁMO 2000) compiled by HCSO containing data up to March 31., 2000. on the basis of the XLVI. regulation of 1999. also played an important role in my evaluations. This provides a detailed survey about the number of farms, structure of plots, average size, the method of land use according to planning-statistical regions and counties as areal units and statistical small regions.

I have also used surveys by Agricultural Research Institute (ARI) and studies of DU CAS Department of Land Use and Regional Development beyond the statistical publications when evaluating agricultural results and characterising the North Plain region. Parliamentary decisions and evaluations by the HCSO provided assistance when examining regional development differences. On the basis of the region's regional development concept, I wanted to find out whether the various, utilized regional development funds served the interest of social-economic, agricultural and rural development endeavours according to the data provided Regional Agencies and county Development Agencies. I used different statistical methods during the analysis of the database. The data of areal sequences were analysed by comparative figures, while the inner structure of various multitudes were evaluated with the help of distribution analysis and used statistical figures to display the results.

3. UTILIZATION OF EUROPEAN FINANCIAL FUNDS

3.1. Financing of the structural policy

The strategic importance of structural policy is reflected by the fact that community expenditures for this purpose made up 4.8% of the total budget in 1975, 8.1% in 1998 and representing a third of the total budget by the end of the nineties. The differences in agricultural supports and regional policy fundings decreased from 10:1 to 1.3:1 over the course of twenty years (*table 5*).

Table 5. EU funding expenditures

Task	1994-1999		2000-2006		Annual average	
	billion ECU	%	billion ECU	%	billion ECU	%
Agricultural policy	220,3	47,8	329,2	44,1	42,3	45,6
Structural operations	155,1	33,7	275,0	36,9	33,1	35,7
Domestic policy	27,6	6,0	51,0	6,8	6,1	6,6
Foreign policy	28,5	6,2	49,9	6,7	6,0	6,5
Administration	22,2	4,8	35,6	4,8	4,4	4,7
Reserves	6,7	1,5	4,8	0,7	0,9	0,9
Total	460,4	100,0	745,5	100,0	92,8	100,0

Source: Annual Report of the CEC Agenda 2000.

Main sources of funding (table 6):



- Structural Funds
- European regional Development Fund
-  European Social Fund
-  European Agricultural Guidance and Guarantee Fund (guidance section)
- Financial Instrument for Fisheries Guidance
- Cohesion Fund
- Community Initiatives

Table 6. The distribution of regional development funds, 1994-1999

Source	Amount, Billion ECU	Distribution, %
European Regional Development Fund	67.6	43.6
European Social Fund	39.0	25.1
European Agricultural Guidance and Guarantee Fund	20.5	13.2
Financial Instrument for Fisheries Guidance	2.5	1.6
<i>Structural Funds</i>	<i>129.6</i>	<i>83.5</i>
<i>Cohesion Fund</i>	<i>12.7</i>	<i>8.2</i>
<i>Community Initiatives</i>	<i>12.8</i>	<i>8.3</i>
Total	155.1	100.0

Source: The Impact of Structural Policies on Economic and Social Cohesion in the Union, 1989-1999. Brussels, European Commission, 1997.

Recipient regions (table 7):

- *Target group 1.:* underdeveloped regions
- Regions, where the GDP per capita is less than 75% of the community average, their economies are weak, the unemployment rate is high;
- *Target group 2.:* industrially underdeveloped (depressed) regions
- The number of people employed in the industry is decreasing for a long period of time, high rate of unemployment;
- *Target group 3.:* high ratio of young population;
- *Target group 4.:* industrial region transforming over a longer period of time;
- *Target group 5a.:* agricultural regions forced to modernise their production structure;
- *Target group 5b.:* rural regions
- Low level of development, high ratio of employment in agriculture, demographic erosion, unfavourable location, poor city network;
- *Target group 6.:* Regions with low population levels
- Population density is below 8 people/km². Only Scandinavian regions belong to this category.

Table 7. Population in the recipient regions of the EU and funding expenditures from Structural Funds, 1994–1999

Recipient region	Population		Funding	
	Million people	%	Million ECU	%
Target group 1.	92.16	2.50	93.9	72.5
Target group 2.	60.47	16.4	8.7	6.7
Target group 3.	13.9	10.7
Target group 4.		
Target group 5.	32.75	8.8	12.0	9.3
Target group 6.	1.29	0.4	1.1	0.8
<i>Total</i>	<i>186.67</i>	<i>50.6</i>	<i>129.6</i>	<i>100.0</i>

Source: First Report on Economic and Social Cohesion. Brussels, European Commission. 1996.

3.2. Recipient regions and the comprehensive objective system

The Council has outlined those objectives, on the basis of a comprehensive objective system, that can be financed from Structural Funds in a given financial period. The objectives that made up the utilization system of Structural Funds were determined during the 1988 Structural Fund reform, which were in effect until Agenda 2000. was launched. These six objectives were the following:

Objective no. 1.: Supporting underdeveloped regions

The regions where the ratio of GDP per capita measured on spending power parity does not reach 75% of the community average in the last three years belong to this group. This essentially includes Greece, Spain, Ireland, most of Portugal, Italy, Northern Ireland, Belgium, Austria, France, and few provinces of the Netherlands naturally the eastern part of Germany. About 73% of the funds were used for this objective until 1999.

The Commission has classified a total 62 regions to objective no. 1 since January 1. 2000, which remains in place for seven years. An additional 12 regions received the classification which temporarily qualifies them to access the highest funding until the end of 2005. It is typical that the Community still insisted on keeping the threshold limit at 75%.

Objective no. 2: Funding for regions especially affected by declining industrial production

Regions with underdeveloped industrial structure, generally with traditional heavy industry belong in this category. The funding was aimed at economic and structural transformation. 7 – 9% of the funds were spent on these objectives until the end 1999. The Community, even following the reforms, is still making tremendous efforts to concentrate funding on the most severe problems and smallest geographical areas. During selection, in the assessment of structural problems, the total unemployment and long term unemployment rate are the most important factors. The active participation of member states in compiling the list of severely affected regions is also regarded as essential.

The basic criteria of identification is that only NUTS III Level regions can belong in this objective, furthermore the population of regions listed under objective no. 2 cannot exceed 18% of the EU's total population. The objective set for 2006 is to have 8.5 - 9% of the population in the current 15 member states living in regions listed under objective no. 2. Naturally, there are exceptions here too. Neighboring regions can also be included in this list if the economic and social problems of their agricultural areas are increasing due to the ageing population, or the rate of unemployment has an increasing tendency due to ongoing or planned transformations in crucially important industrial, agricultural, or service sectors. A region can only belong to either objective no.1 or objective no. 2. Progressing regions that belonged to this category in 1999 were eligible to receive this temporary funding until 2003.

Objective no. 3: Funding programmes for fighting long term and youth unemployment

About 5-6% of the funds were used for this purpose until 1999. Currently, one criterion is set for this objective, namely that only those countries can be listed in this category that do not belong to objective no. 1.

Objective no. 4: Funding for retraining employees, assisting adaptation to changes

Made up 5-6% of the funds, clearly directly funding actions aimed at avoiding unemployment.

Objective no. 5: Modernising various sectors of agricultural production and fishery

Aimed at assisting structural adaptation of agriculture, in parallel with the development of areas where employment in agriculture is high. 4-5% of the funds were devoted to these target groups until 1999.

Objective no. 6: Funding for areas with low population density

Mostly aimed developing low population density areas of Finland and Sweden, making up 0.5-1% of the fundings.

3.3. Changes after 2000 – AGENDA 2000

A new situation occurred in EU integration processes. The reason: *the eastern and southern expansion of European Union targeted the accession of states that were well below the development standard of the Union*. The expected expansion has a number of effects on the future of structural and cohesion policy. The central, eastern and southern European countries in their pre-accession phase would be fully eligible to access community regional funds with the current, most important criteria which would have important consequences

1. all of them would wish to get a share from the funds of Union,
- 2., the average of community development level will decrease significantly, and as a result the current beneficiary regions will be excluded from the funding schemes.

The large number of pre-accession countries and the expected increasing need for funds would result in the drastic increase of common structural and cohesion budget expenditures. This is not possible though, especially when member states, partly due to efforts made by the main contributors, are striving to cut down budget expenditures, in fact the main contributors (Germany, France, Italy and England) are considering the reduction of payments into the common budget.

The solution for this complex problem have to be found before the expected eastern expansion of the EU between 2000-2006, prior to the new financial period. The answer was provided by the *Agenda 2000 programme package*, which initiated reforms aimed at preserving the financing of community budget for current member and candidate countries. The main principles of *new reform package* were outlined in the document entitled Agenda 2000 of the European Commission, published in 1997. Finally, the ministers of member states accepted the budget and reform package of Agenda 2000 on 24-25 March, 1999 in Berlin along with the framework of the structural and cohesion policy that included the budget of financial instruments for this purpose between 2000-2006.

Agenda 2000 defined the strategy of the Union to reinforce economic growth and strengthen global economic competitiveness, improve employment and education conditions along with the eastern expansion of Union borders. The Community also had to face the situation that certain reforms of community policies were inevitable and that financial limitations cannot be disregarded.

The programme package evaluated the preparedness of 10 central and eastern European countries in their pre-accession phase. The Document recommended the launch of accession discussions with the five most prepared central and eastern European countries: *Hungary, Poland, Estonia, the Czech Republic and Slovenia* with the addition of Cyprus. The *Document* outlined the costs of the expansion for the EU at 75 billion ECU for the period of 2000-2006. (table 8).

Agenda 2000 has outlined three important challenges for the Union:

- The reinforcement of the Union and the reform of community policies, which enables expansion and fulfill the requirements of sustainable development, high level of employment and ensure the improvement of living standards.
- The launch of action discussions with the most prepared countries,
- How to solve the problem of financing the expansion to benefit and improve the domestic policy of the Community.

Table 8. Occurring expenses in the common budget due to the accession of new member states (million euro)

	2002	2003	2004	2005	2006
Agriculture	1600	2030	2450	2930	3400
Structural Funds	3750	5830	7920	10000	12080
Domestic Policies	730	760	790	820	850
Administration	370	410	450	450	450
Total	6450	9030	11610	14200	16780

Source: www.europa.com/eu/inz/comm/council

The reinforcement of the EU is primarily based on the reform of community institutions. The key elements of institutional reform:

- the concept of citizens' Europe *has to be strengthened* with the democratisation of decisions, with subsidiarity and increasing the ability to influence decisions.
- The Treaty of Amsterdam has reinforced the status and authority of Chairman in Commission in the interest of increasing efficiency.
- As a counterbalancing action, the instruments and authorities of the European Parliament that served the monitoring of the Commission were expanded.

The aim of developing domestic policies:

- accelerating economic growth,
- expansion of employment
- improving quality of life.

Four important priorities were defined in connection with this

- *Establishing conditions of sustainable growth and high level of employment.* The task of the Community, as it approaches economic and monetary union, to support stability, market efficiency and investments. The objective is to fully exploit the possibilities provided by the common market to promote economic growth and the creation work places. To achieve this goal, the most important preconditions are the improvement of operation conditions for small and medium size enterprises, the establishment of trans European networks, primarily towards Central Europe.
- *Supporting knowledge based policies,* to boost research and technical developments in the Community, as well as supporting education and vocational training. Ensuring the mobility of young people and the development of information society have all been in the interest of the aforementioned.
- *The modernisation of employment systems,* which ensures economic growth, the improvement of competitiveness and the establishment of new workplaces. This includes the reform of pension and health care systems.
- *The improvement of living conditions* includes the endeavor to increase the number of beneficiaries of economic growth. Public health care, better implementation of environmental protection regulations are more emphasised. The aim of improving living conditions is to expand the freedom of mobility, domestic security and the institutional background of the justice system.

The improvement of Structural Fund utilisation promotes economic-social cohesion, as this will become one of the greatest challenges of the Union following the eastern expansion since the GDP per capita in the pre-accessing states is currently 30% of the Community's average.

The concentration of resources and increasing efficiency is displayed in the reduction of objectives.

The new no. 1 objective is still the assistance of underdeveloped regions in their development efforts and the structural transformation. Considering its objectives, the previous no. 1 and no. 6 objectives are represented in objective no. 5. Therefore, the budget dedicated to objective no. 1, which makes up 69.7% of the funds, can be accessed by regions where the GDP per capita is below 75% of the community's average, including the overseas regions and the less populated areas in the north.

The new no. 2 objective assists economic and social transformation in regions where structural change has been problematic. It covers such areas, where significant economic and social processes have been taking place as well as areas struggling with a decaying agriculture, underdeveloped urban regions depending on fishing. Essentially, it unifies and complements the previous no. 2 and no. 5 objectives. Unemployment is a highlighted area, especially the support of actions aimed at terminating long-term unemployment. 11.5% of the funds are dedicated to objective no. 2, in a way that payments can only affect maximum 18% of the Union's population.

The new objective no. 3, which joins the previous no. 3 and no. 4 objectives, supports the adaptation and modernisation of education, training and employment systems but only in areas not included in objective no. 1. Depending on the population size, all member states receive a specific portion from the funds of objective no. 3. The significance of this is that all member states, even the richest ones, can benefit from Structural Funds. 12.3% of the funds are spent on objective no. 3.

The tasks deriving from the objectives are still supported through Structural Funds and Cohesion Funds and support forms provided by community initiatives.

Structural Funds remained unchanged in content following Agenda 2000, however community initiatives were concentrated similarly to objectives and only the previously listed interregional, rural development and other programmes created to fight disparities remained out of 13 operating programmes of 1999. .

5% of the commitments from structural funds have to be spent on community initiatives.

An important task regarding structural funds, was to find a solution for managing the effects of expansion on Union member states. Since the expenditures of funds were previously concentrated around the first objective, the biggest beneficiaries are the regions where the GDP per capita is below 75% of the community's average.

As a result of expansion, indicators in many of these regions went beyond the threshold limit and were not eligible for funds any longer. Based on the recommendations of Commission, transition funds were launched for these regions from 2000 to reduce the financial and social consequences of the drastic cut. The level of transition funds in areas where the justification of supports ceased in 1999, was lower in 2000 than in 1999 and it gradually ceased by 2005.

After long debates, Agenda 2000 preserved the Cohesion Fund unchanged for the financial period of 2000-2006.

The fund was originally established for the preparation of the monetary union for states where the GNP is below 90% of the community's average to support environmental protection, transportation and infrastructural investments. Since the three latter out of the

four affected member states, from Greece, Ireland, Portugal and Spain became a part of the group of countries that launched the monetary union in 1999, many countries have suggested that these three countries are no longer eligible for accessing the Funds. Due to pressure from affected governments, the European Council finally decided that the significance of objectives outlined in the Cohesion Funds still has not decreased. On the basis of these, the budget of the Cohesion Fund, primarily to Spanish pressure, was raised to 18 billion Euros from the previous 15 billion ECU between 1993-1999.

Respectively to the achieved developments and the changed macro-economic environment, funds were distributed among the euro zone states by constantly taking the developments of the previous period into account and the eligibility of states was decided on the basis of this. This was first revised in 2003 on the basis of 90% GNP condition. If the eligibility of a member state ceases, funds will be reduced accordingly.

Agenda 2000 also regulates the threshold limits of ratios for community co-financing for structural and cohesion funds. On the basis of this, the maximum community funding ratio from 2000 in a given project is 75% of total costs (in the case of Cohesion Fund beneficiaries it is 80-85%) in objective no. 1, and maximum 50% in objectives no. 2 and 3. The community support provided by Cohesion Fund, similarly the previous period, remained 80-85%.

In order to limit community funds per member state, a new regulation was passed that limited the annual income from structural funds to 4% of the GDP in the affected state.

Altogether, it has to be emphasised that probably the biggest achievements of Agenda 2000 were the decisions regarding the reforms of structural and cohesion policy, since these were not simply aimed at making the utilisation of community funds more efficient based on previous experiences but they provide opportunities for expansion by not preserving the available funds of current member states.

3.4. The Structural Funds

3.4.1. The European Regional Development Fund

The plan of the establishing the European Regional Development Fund was brought up at the 1972 summit in Paris. After this, agreement was reached in 1973 about the establishment of the European Regional Development Fund (ERDF), then a year later the summit in Paris brought a decision regarding the provision of financial instruments and the fund began its operation in 1975. Within the budget, the fund has separate resources for many years, so that provided financial tools are only spent on the planned objectives and priorities. The need for safe programme financing requires the a financing method tied to the funds.

Between 1975-1978, the community policy only supported national regional policies. Throughout this time, the fund was the most important and the only financer of community policy. For the first three years of the fund a 1300 million E.U.A budget was accepted. This amount was used to support 4747 projects in the first three years of the programme with a total investment value of 11.711 million E.U.A. These data indicate that community supports funded 11% of investment expenditures on average or that 274 thousand E.U.A. fund was granted on average per project. This is partly due to the passive role of the fund. The concept of additionality was validated from the beginning of the project. If the mixed financing includes infrastructural investments, then 10-30% of the financed costs could be paid through the ERDF, depending on project scale, but in the case of total public funding the ratio could reach half of total costs.

The community that time did not have its own regional policy and priorities and only co-financed projects funded by member states. Only a third of the funded projects were direct production investments. Then the most important type of infrastructural investments were industrial plants and the connected roads, telephone networks, energy distribution systems and harbours. However, the priorities and supported projects were selected by member states.

The independence of community regional policy increased from 1984, since 5% of structural fund expenditures were programmes initiated by the community. Member states were obliged to develop their own regional development policies. In 1985, the regulation of the ERDF was redefined which was introduced in 1986. With the introduction of lower and upper limits, its flexibility and decision making competency was increased. As a result of these changes, regional policy changed its role from being the passive financier of regional policies and became the active participant of regional programming.

In 1988, the regulation of the fund was reformed again. Its operation was harmonized with the European Social Fund and the Orientation Section of the European Agricultural Orientation and Guarantee Fund. The three funds jointly have been referred to as Structural Funds since then. Their joint objectives and principles of their operation were determined by no. 2052/88 and no. 4253/88 community regulations. The own activity of the European Regional Development Fund became regulated by no. 4254/88 community decree. This was modified in 1993. Six years later however, these became invalidated. The most important elements, that are still in effect today, of the community regulation accepted in 1999 are the following:

The task of the European Regional Development Fund is to support economic and social cohesion through eliminating regional disparities in the development of regions and through involvement in the transformation. On the basis of Article 130/c of the founding document it supports:

- investments creating permanent workplaces,
- development of infrastructure in regions that belong to objective no.1, as long as it increases the economic potential, development and structural adaptation of the region. It promotes the sustainability of employment and contributes to the development of Trans-European networks in the fields of energy, telecommunications and transportation, as well as infrastructural developments in regions that belong to objective category no. 1 and 2 as long as it contributes to the revitalisation of depressed urban regions, development of rural areas, improves access in order to facilitate investments,
- development of inner growth potentials through supporting local developments, motivating employment, small- and medium size enterprises,
- financing technology transfers and the application of innovative solutions,
- assisting capital access of enterprises,
- participating in the investments of enterprises,
- developing local infrastructure,
- services creating new workplaces,
- investments in health care and education in regions that belong to objective category no.1.

The support priorities of the fund include the following areas:

- the production infrastructure, which contributes to increasing competitiveness especially in the case of small and medium size enterprises and contributes to making the region more attractive, thus improving the standard of infrastructure,
- research-development, which supports the introduction of new technologies and innovations, and which contributes to the development of the region through increasing research and development capacities,
- development of information society, - the protection and rehabilitation of the environment, considering the principle of precaution and prevention in economic developments, increasing the efficiency of energy use through the development of renewing energy sources.
- equal opportunities among sexes in the labour market and in enterprises and reconciling this with family life.
- international, cross border and interregional cooperation in regional developments.

The budget of the fund between 1975-1988 was 24.4 billion ECU, between 1989-1993 35.4 billion ECU, and between 1994-1999 was 80.5 billion ECU. 41 thousand community investments were realized through its contribution, where 900 thousand workplaces were created. 84% of the developments were infrastructural until 1984. It can be seen that they significantly increased the provided funds in the beginning of each financial period. About 45% of all structural interventions were financed from the European Regional Development Fund.

3.4.2. The European Social Fund

In 1957, the establishment of the fund (ESF) was included in article no. 123 of the Rome Treaty. Finally it was set up in 1960, with the primary Community aim of effectively contributing to the professional and spatial mobility of employees, such as professional retraining, transfer and relocation. They wished to ensure the adaptability of the labour market through this within the changed framework of the Community. It was also part of the developing community institutional system that was to ensure the free flow of factors. This objective however could not have been realised without the active participation of member state institutions. Such a support on behalf of member states was to permit the transfer of needs for social security and social support from one country to the other in order to increase the social security of employees and their family members. So on the basis of pension eligibility obtained in one member state of the Community, pensions can be obtained in another member state. This objective has been complemented with others during the past decades.

So the activity of the fund began in 1960. Original concepts were based on the belief that regional problems occur primarily in the form of unemployment and the objective was to eliminate this through labour force mobility. Increasing professional mobility wished to cure structural problems of local labour markets by supporting vocational trainings and retraining. Spatial mobility and supporting relocation was aimed at solving the efficient allocation of labour force.

However, the Birkelbach report made the conclusion that the activity of the fund in preferred regions only increases the overflow and supply of labour markets but it is unable to cure these regional problems. A reason for this is that regional policies are not strictly related unemployment. The Elsner report in 1966 mentioned that the operation of the Fund according to the originally defined functions does not solve the problems of labour markets in itself. Therefore, it recommended that the retraining of labour force and the application of new technologies should be included among the tasks of the Fund in regions struggling with structural transformation.

Adaptation to accelerating economic and technological changes became the central issue of the reformed Fund implemented in 1971. The following objectives were defined at the 1971 November meeting of the European Council for the ESF:

- supporting people participating in retraining,
- supporting people who move away from their homes and relocate in hope of employment opportunity,
- ensuring a specific income level for people who become unemployed not out of their own fault,
- achieving the best possible work conditions in less developed regions,
- eliminating obstacles of certain groups to access the labour market.

At the same time, the objectives of funds were also transformed. Instead of the previous objectives that ensured spatial and professional mobility, the emphasis was placed on supporting undertrained, unemployed young people and employees who were negatively affected by industrial structural change in regions struggling with a high level of unemployment.

At the time of its establishment, the scale of unemployment was not regarded as chronic problem in the Community. Over the course of time, this has changed significantly, so through gradual reforms the fund already supports all such human resource development programmes, which results in even the short or the long term reduction of unemployment. The concept of additionality was introduced with the fund, according to which the Community only financed 50% of the costs. In the beginning there were not separate budgets for the member states, thus proportionately more funds became accessible for countries that applied funds the most efficiently. Until 1971 this was the GFR.

Following the 1971 reform, funded projects were not selected on basis of national but rather based on community aspects and quotas for each country. Assisting women and the handicapped in fitting in became a main objective.

In 1983, anew reform took place: emphasis was placed on introducing young unemployed into work. Most of the funds were spent on this objective between 1983 and 1988. The change in the principle of additionality also affected the European Social Fund, according to which it will not replace but rather complement national funds. The ratio of regional concentration increased. 40% of the whole budget was received by Greece, Ireland and few provinces of France.

In 1988, during the comprehensive reform of Structural Funds, the activity of the ESF was integrated into the operation of other funds. It received the task of participating in all human resource development programmes supported by the Community.

Its intervention authority includes:

- promoting the professional integration of people struggling with long term unemployment,
- supports the development of such vocational, pre- and basic training system that enables the sustainability of mobility, employment and integration into the labour market through continuous learning,
- provides consultancy for people who return to the labour market,
- increases the role of human resource in research-development,
- develops appropriate training, employment and support structures to enhance the acceptance and adaptation of innovation at enterprises,
- ensures equal opportunities for accessing the labour market,
- improves the participation of women in labour markets, including career building and reducing the horizontal and vertical segregation of the labour market.

The fund contributes to local developments, including local employment programmes. It also contributes to adaptation to challenges of information society. Funding schemes for individuals and organisations are distinguished among supported activities.

Supports for individuals are the following:

- two or more years of basic vocational training, vocational training equivalent of compulsory education,
- support for employment and business start up,
- developments in research, development and developments in the field of science which include postgraduate training and the education of managers working in research institutes and enterprises,
- developing the new resources of employment.

Supports for various organisations are the following:

- development and improving quality in educational, vocational and classification systems, including the further training of teachers, further improving the opportunities of employees,
- improving the efficiency and modernisation of labour services,
- strengthening relationships between education, vocational and research systems and the labour market,
- forecasting labour force trends and vocational requirements, especially according to new work labour organisation forms.

Supplementary actions eligible for support:

- increasing consciousness, publicity of information,
- development of capacities to promote integration into the labour market, including such services like patient support, providing and improving legal representation to employees, and the integration people endangered by isolation.
- Supports aimed at improving the equal employment opportunities of women and man especially where women are only represented to a small extent, or in the case of the unskilled or people re-entering the labour market after a long absence,

- activities for employees endangered by unemployment to promote adaptation to industrial and production structure change, considering the special needs of small enterprises.

The transformation of funding system objectives brought significant changes after the closure of the 1999 financial period. The following aspects were highlighted after the objectives were reevaluated:

- increasing the multiplication effect in education efficiency rather than the increasing the funding for employment,
- quality assurance for programmes, this means that the utilization of educational funding is most efficient when the knowledge of trained employees fits the requirements of national economy and the community,
- increasing cost efficiency, which means that such programmes should be compiled that are most likely to produce the highest output in the long run.

Beyond these, the European Social Fund is also funding various experimental programmes, which are focused on the following areas:

- experimental programmes in the field of employment, vocational training and labour market,
- studies, consultation activities, exchanging experiences with multiplication effects,
- consultation in the fields of preparation, monitoring and evaluation related to the activities of the Fund,
- supporting the transfers of special skills and knowledge for the institutions of social dialogue,
- informing the various beneficiary partners and the public.

Through the changes in objectives and the funding structure it can be seen that problems of deteriorated heavy industry dominated crisis areas is a thing of the past. Presently, funds have to be targeted at modernisation, the development of information society and training employees to receive the required qualifications.

3.4.3. The Orientation Section of the European Agricultural and Guarantee Fund

In accordance with objectives outlined in article 39. of the Rome Treaty, the Orientation Section of the European Agricultural and Guarantee Fund (EAGGF OS) is suitable for supporting the following objectives:

- Accelerating the adaptation of agricultural structures within the framework of common agricultural policy reform,
- Supporting the structural adaptation of rural development and economically underdeveloped regions.

The European Agricultural Guarantee and Orientation Fund was established in 1962, to increase agricultural productivity and to increase the incomes of people working in the sector as well as stabilising the market of agricultural products.

Since 1968, such actions were introduced that aimed to promote employment opportunities outside agriculture, support retraining and financially assisted the retirement of agricultural workers.

Prior to 1972, the Community did not have an agricultural structural policy. That year though, agricultural funds were complemented, and a result instruments were focused on the foundations of developing agricultural enterprises and introduced the upper limit of animal husbandry quotes, as well as covering the training costs of workers in the sector. In 1985, new reforms were launched to further increase the efficiency of agriculture, new supports were given to young farmers, reduced the upper limit of animal husbandry, and supported production with less environmental impact.

During the 1988 reform of the Structural Funds, objectives related to changing agricultural structures and rural development, listed in objectives no.1, 5 and 6 were included among the priorities. The Orientation section of the EAGGF makes up 15% of the total EAGGF budget, which funds the following objectives:

- diversification, transformation, reorganisation of agricultural production, quality improvement in the agricultural sector including production and processing activities,
- strengthening structure in forestry, forest development,
- reducing the agricultural effects of unfavourable natural conditions through income supports,
- restructuring plots for improving the efficiency of ownership structure, - developing consultation service,
- improving vocational training,
- research-development, innovation in agriculture,
- local or regional product quality labelling and related investments,
- financial tools and consultation for companies involved in processing agricultural and forestry products,
- supporting beginner farmers,
- transforming production potential, diversification, redirection, modification including the production of non-food agricultural products.

If the European Regional Development Fund does not or cannot provide funding for sectoral development, the EAGGF GS can contribute to financing developments in the fields:

- developing and improving rural infrastructure for agricultural and forestry developments,
- actions promoting diversification, especially if these provide alternative activities or income for those employed in agriculture,
- restoration and development of villages, protection and preservation of rural heritage,
- individual or group ploughland or pasture melioration,
- establishment, restoration and development of irrigation, irrigation networks, small reserves and water drainage systems,
- rational utilization of water, preventing natural catastrophes, protection of rural areas and environment,
- development of rural tourism, stimulating investments in tourism and handicraft.

3.4.4. Financial Instruments of the Fishery Orientation

The FIGF as a Structural Fund was created to solve a very unique problem in regions where structural changes in fishery is required. It is outstanding not because of its budget size but rather because of its objective and method. The basic problem was essentially the rate of overfishing in the coastal waters of the Community. The situation was complicated by the fact that the Treaty of Rome declared joint ownership of the coastal waters of the member states in the Community, including the entire North Sea. Interestingly, Austria and Luxemburg can also receive funds, even though these are not coastal countries, which can be promising for Hungary as far as activities related to fishery at Balaton are concerned.

3. 5. The Cohesion Fund

The Balladur and Schauble plans introduced in the beginning of the 1990's were strongly opposed by the underdeveloped regions of the Community as the European Union declared gradual, multistep integration.

These countries opposed multiphase integration, meaning that there are leading and left behind states. The developed countries voted for developing the poorer regions. The Cohesion Fund was intended to be a compensation for countries that were left out of European Monetary Union (EMU) according to the first plans of the European Council. The objective was to speed up development in order for countries to meet requirements set by the EMU and to become members of the financial union.

Since then we know that following the 1998 decision of the European Council that from the four countries, Ireland, Spain, Portugal and Greece, receiving funds from the Cohesion Fund all have become members of the monetary union then except for the last.

The establishment of the Fund was ordered by a treaty made in Maastricht in 1991. According to its objective, the convergence of real spheres in the poorest countries in the Community have to be supported in the period of preparation to the monetary union. It had to strengthen economic and social cohesion and had to reduce development differences among the various regions.

The Maastricht convergence criteria of the *monetary union*, only regulate the fulfillment of financial conditions, and this urges countries to delay projects with long term return. The objective of the Cohesion Fund is to solve this problem without increasing the budget deficit and through preventing further decay of the environment

Those two areas were selected where the average return period of specific projects is the longest. Namely, environmental protection and transportation. Beside the finance difficulties of these two sectors, two other reasons have to be mentioned as well, in order to understand selection.

First, the catastrophic environmental condition and pollution of Mediterranean countries. The environmental condition of these countries did not allow the delay of certain environmental investments, since in some areas, like the water supply of Spain, the air pollution of Athens and Madrid, it would have lead to irreversible processes. The other important circumstance is that all four Mediterranean countries are located at the periphery of the Community with rather bad infrastructural indicators compared to the Community average. With the absence of suitable infrastructure, the integration of these countries to the common market would have been in danger.

Due to the dragging of ratification debates regarding the Maastricht treaty, coming into force was delayed with the process of establishing the fund and launch of its operation. At the EC summit of 1992, decision was brought about the temporary establishment of the Cohesion Financial Instrument, which began its operation in 1993. Following this, on the 1st April, 1994 the activity of the Cohesion Fund (CF) began.

Those countries could access this fund, where the GNP per capita measured on consumer parity is below 90% of the community average. Another condition was the fulfillment of the convergence criteria, or the submission and approval of tendencies and endeavors in the direction.

Until 1999, the above mentioned four poorest member states could access it. At the Berlin meeting of the European Council, it was decided that regardless of GNP indicators these four countries could access funds of the Cohesion Fund from 2000. It also regulates eligibility beyond the evaluation of GNP between the period of 2000-2006 and 2000-2002 in 2003.

The budget deficit, expressed in the ratio of GNP, of the beneficiary member state cannot exceed the limit set by the Community is a *precondition for accessing these funds*. The investment sources of financed projects have to be compiled in a way that it prevents budget deficit increase. This means that ongoing, funded projects have to be completed according to plan, however the member state cannot launch new projects from the Fund.

Basic principles of the Fund:

- aimed at a sustainable development,
- applies the principle of *who pollutes pays*,
- emphasis on environmentally friendly transportation system based on sustainable development,
- expenditures of environmental protection activities also have to be included,
- environmental impact examinations have to be carried out with all projects.

During its activity, the Fund adapts to the transportation development policy, environmental protection action programme and Stability and Growth Pact of the Community.

The allocation of fundings from the Cohesion Fund among member states is determined on the basis of population number, GNP per capita, size of dry land and other economic and social factors. 15.150 million ECU funding was approved between 1994-1999, 55% of which was received by Spain, 18% by Greece and Portugal, 9% by Ireland.

The total budget provided by the Cohesion Fund for the 2000-2006 period was 21 billion Euros. 3 billion Euros can be used annually. Every year, the commission evaluates the utilization of funds and the fulfillment conditions.

45% of the expenditures is spent on funding environmental protection and 55% on transportation projects.

In the field of environmental protection such projects can be funded that fit into the environmental protection policy of the Community and are in accordance with the existing priorities of the environmental protection action programme

In the field of transportation, those projects can be funded that are part of the development directives of regulation no. 1996/11692. of the European Council about Trans-European networks. Due to the lack of eligible projects, the provided funding was not always fully exploited, despite the large ratio of community fundings. The ratio of funds through the Cohesion Fund can reach 80% of the sources provided by the public sector, and 85%

within the investment expenditures of projects. These funding ratios can be reduced where income is produced as a result of investments. These investments can be such infrastructural projects where direct payment is required upon use, or production investments in the environmental protection sector, where the "who pollutes pays" principle is applied.

The coordination of community sources, Structural Funds and European Investment Bank, has to be ensured in the case of funded projects. The ratio of community fundings, in the case of Cohesion Fund projects can reach 90% of the investment expenses. The funded projects have to be significant enough to produce measurable improvement, therefore the lower limit of the funded projects is 10 million Euros. The submitted projects have to include the following information:

- name of the implementing organisation,
- nature, description, expenses and location of the investment,
- introduction of common European interests,
- schedule of task implementation,
- cost-profit evaluation, including direct and indirect costs,
- direct and indirect effects on employment,
- examination of possible environmental impacts,
- information about public procurement,
- financial plan, which includes the economic indicators and variables of the project,
- introduction of expected medium term economic and social effects.

The most important criteria of submitted projects:

- the medium term economic and social benefit of the project should be commensurable with the utilised resources by applying the cost-profit evaluation,
- the priorities set by the beneficiary member state should be reflected in the project,
- the project should contribute to the policies of the Community, with regards to environmental protection and Trans-European networks,
- the project should be compatible with the policies of the Community and consistent with its actions,
- the balance of transportation infrastructure and environmental protection should be ensured in the planned actions.

A decision by the Commission has to be made within three months after submission regarding the submitted projects, which should be published in *the official paper of the Community*, the *Official Journal of the European Communities*. The Commission decides about the full support of the project with its decision, the schedule for each year has to be made following this. If the project is longer than two years, the scheduling of fund payments depends on the annual schedule of financial and implementation plans. If the project covers less than two years, or its budget is less than 50 million Euros, then 80% of the fund can be granted in the beginning of the investment.

Forms of funds:

- cofinancing of accepted programmes, complementing national funds,
- supporting direct users through a managing entity on the basis of agreement between the Community and the beneficiary state,
- co-financing suitable projects,
- supporting consultants.

The financial monitoring has to guarantee the orderly fashion of financial activities, the prevention of irregularities and its sources and revealing possible losses. The member state has to inform the Commission about the action taken, about the structure of managing and monitoring system, which guarantee the efficient utilisation of programmes.

3.6. Pre-accession Funds for EU enlargement

Pre-Accession Funds – community fundings for candidate countries, aimed at supporting preparation for the accession: Phare, ISPA and SAPARD. *Pre-accession Strategy*: it was created at the Assembly of the European Council in 1994, in Essen to provide assistance for the preparation of candidate countries. Components: European Agreements, structured dialogue, the Phare and the White Book given to candidates at the Cannes summit in 1995 about the tasks of internal market regulations.

PHARE

(Poland Hungary Assistance for the Reconstruction of the Economy)

The Phare programme is the initiative of the European Union, in which the EU provides financial support for the development central and eastern European partner countries, so that they can undertake obligations attached to accession and membership.

For Hungary so far, supports have been concentrated on the following main areas: economy, infrastructure, human resources, environmental protection, developments with public compatibility, cross-border cooperation, 'multi-country', and horizontal programmes. The Phare programme supported an additional 11 candidate countries beside Hungary and Poland.

ISPA

(Instrument for Structural Policies for Pre-Accession)

The task of ISPA is the preparation of pre-accession countries to accept Structural Funds. It provides assistance in the fields of infrastructure and environmental protection to solve specific problems delaying accession. Sustainability is an emphasised area in project selection and they have to fit into relevant environmental protection and transportation strategies.

SAPARD

(Special Action Programme for Pre-Accession Aid for Agricultural and Rural Development)

Its task:

The task of SAPARD is the development of agriculture and rural areas. Its funds are essentially serving preparation for common agricultural policy in the pre-accession period in candidate countries. The programme is for the 2000–2006 period. Hungary can expect an annual 38 million Euros. Candidate countries have to prepare an agricultural and rural development programme, which outlines eligible actions based on one or two strategically important priorities. The projects that are in accordance with the national SAPARD are selected for funding.

The PHARE, ISPA and SAPARD programmes of the European Union were created for the following main objectives: strengthening regional cooperation, introduction of EU Structural funds, preparation of target regions, implementation of planning, introduction of monitoring system, constructing partnership among governmental, local and civil organisations, practice of decision making mechanisms to be applied when receiving various funds, implementing decentralised decision making and complex testing of the entire planning-financing-monitoring process (*table 9*).

All this with the declared objective to ensure the equal basis for new member states to participate in the available funding programmes by fulfilling the expected criteria.

Table 9. The budget of Pre-Accession Funds 2000–2006 (million Euros)

Funds	2000	2001	2002	2003	2004	2005	2006
SAPARD	520	520	520	520	520	520	520
ISPA	1040	1040	1040	1040	1040	1040	1040
PHARE	1560	1560	1560	1560	1560	1560	1560
Total:	3120	3120	3120	3120	3120	3120	3120

Source: www.europa.eu/int/comm/council

3.7. The PHARE Programme

The Council of European Communities launched the programme entitled the Poland Hungary Assistance for the Reconstruction of the Economy at the end of 1989, which was aimed at contributing to the economic rebuilding of two leading countries in their transformation phase. Later, the programme expanded to the entire eastern European region. The regulation of the programme was accepted in September, 1990, then it was modified several times. So the European Community launched the programme with the objective to support the economic and political reforms of eastern Europe. The European Community assisted the change of regimes and initiated modernisation processes through catalyst type funds provided for complex development programmes.

Hungary signed the agreement on September 23, 1990, which regulates issues related to eligibility and general legal, financial and administrative issues as well as the obligations and rights of the beneficiary country.

Decisions on funding are made by the EU Commission based on the suggestions by the beneficiary country and the PHARE Management Committee in Brussels. Funding and other commitments regarding the launch of specific assistance programmes are made in the so-called financial memorandums of the Commission. These memorandums contain the programme budgets, name of implementing organisation, programme objectives, content of specific development programmes, detailed expenditures and regulations on implementation, monitoring and evaluation.

Accordingly, the new objective system of the PHARE Programme set the centralisation of decision making, fund concentration and the improvement of project preparation as objectives.

Professional tasks of the programme, such as programme planning, issuing tenders, became the tasks of beneficiary organisations. Only those beneficiary organisations are involved in administrative tasks that essentially require the establishment and maintenance of these functions in order to request and manage various pre- and post-accession funds.

A few outstanding programmes are:

- The SPP programme for the preparation of Structural Funds, with a budget of 60 million ECU for seven years,
- The horizontal fund, that can be accessed through application for infrastructural developments, with an annual budget of 150 million ECU,
- The horizontal fund for small enterprises, with approximately 50 million ECU per year.
- Hungary received 798.5 million ECU of non-refundable funding through the PHARE Programme until 1998.

When examining the distribution of funding objectives according to objectives and sectors, the following important data can be found:

- Privatisation and related company structure transformation are priority areas of economic development and structural transformation with a sum of 81 million ECU. Consultation and assistance are the most common form of support, but there were also examples of investments through supported financial constructions.
- The development of small- and medium size enterprise sector also received 69 million ECU, partly in the form of information and consultation services and partly through complemented and supported loans.
- The 78.5 million ECU of funding for agricultural development was aimed at assisting the reform of the agricultural sector, institutional development required for transition to market economy, modernisation of the monitoring system and expanding the loan sources of agricultural producers.
- The 25 million ECU provided for regional development was used for establishing development policies, the institutional and regulation system as well as for complementing the local and central budget of development programmes in specific regions.
- Funding for infrastructural development and environmental protection includes consultancy and assistance for establishing development policies for the energy sector, transportation, water management and environmental protection as well as providing co-financing for energy saving programmes and various transportation, waste water management and border control investments.
- The 68 million ECU funding for environmental protection complemented the investments by local governments and enterprises.
- 105.5 million ECU of funding was provided for the development of social and health care systems, but support granted for human resource development, public administration, education and vocational training was also significant.
- PHARE funding in the service sector primarily supported the modernisation of the sector, improvement of research and development conditions and development of the customs and statistical systems.

Out of the 104 million ECU annual budget of 1997, the European integration chapter received 14 million, where essential training programmes for integration preparation were funded, especially those institutional development programmes that aimed to serve the adaptation of community regulation. Regional development that year also received significant funds, which complements the investment resources of development programmes in 2 regions in Hungary, contributing to industrial structure transformation, and the realisation of rural development and human resource development objectives. A 30

million Euro fund was granted to financing the Hungarian-Slovenian railway rebuilding, and 14 million ECU complemented the resources of Hungarian-Austrian cross-border cooperation.

The 1998 funding budget was 87 million ECU. The national programme of 1998 funded 17 projects in six highlighted areas beyond the ongoing TEMPUS and Hungarian–Austrian cross border funds. The six highlighted areas are the following: harmonization of laws, border control, agriculture, environmental protection, regional development, community programmes.

The implementation of cross-border programmes was made possible from 1995. The target areas of programmes in Hungary were Győr-Sopron-Moson, Vas and Zala counties, and the province of Burgerland in Austria. The funding was primarily aimed at developing cross-border relationships of provinces along the borders of Austria and Hungary, improving conditions of economic cooperation and developing local infrastructure beside social and health care systems. Such cross-border programmes were implemented later, based on the example of Hungarian compatibility, also along the Hungarian-Romanian and Hungarian-Slovenian border regions.

3.7.1. Principles and objectives of the regional development PHARE programme

The development objectives defined in the regional development PHARE Programme are the following:

- *Industrial structural change.* The regions affected by the crisis of traditional industry were funded through this programme.
- *Human resource development.* The programme was aimed at handling long-term unemployment, as well as the development of vocational training and higher education in accordance with economic requirements.
- *Rural development.* The aim of the programme is to promote the diversification of agricultural activities in underdeveloped regions, promoting the development and growth of rural areas (in accordance with objectives declared in the rural development policy of the Community, which will also be introduced in sub-chapter).

The principles required by the PHARE Programme are the following:

- *Subsidiarity*, which means that decisions have to be brought in accordance with representing various interests.
- *Programming*, which means that regional development projects have to fit into strategic plans and have to be based on partnership and can only be funded with appropriate cofinancing.
- *Additionality*: the majority of the financing cannot be of public sources, so the government can only ensure supplementary resources for the implementation of programmes.
- *Concentration*: development funds have to be concentrated on those areas and objectives, which are likely to produce the best results.
- *Strategic approach*: the funded projects have to be in accordance with the development priorities of the region.
- *Partnership*: the project proposals express the willingness of organisation to cooperate in the development along with the related obligations.

- *Innovation:* As a result of cooperation among organisations playing a role in the development of the region, such projects have to be implemented that provide innovative solutions to problems.
- *Measurable results:* The expected results of the programmes should be measurable.
- *Cost efficiency:* the provided funds should be utilised most efficiently.
- *Regional effect:* The projects have to possess regional effects.
- *Implementation:* The project proposals have to prove that conditions of development have been met, resources are provided and thus there are no limitations of implementation.

3.7.2. *The PHARE Rural Development Programme*

The EU PHARE Regional Experimental Programme Fund aims to promote the establishment of practical skills primarily through regional, county and small regional development projects.

The objectives of the rural development programme:

- accelerating the economic transformation of agriculture and rural areas in the selected region,
- assisting quality product output,
- increasing the management capacity of authorities dealing with rural areas and agriculture,
- promoting the establishment and development of new rural and agricultural enterprises,
- assisting the market accession of quality, export product,
- assisting regional cooperation,
- supporting the activities of rural population to keep them in their location, improving rural living conditions.

Primarily those projects can expect funds where partnership is clearly displayed, along with local, regional cooperation and integration, the innovative feature and regional effect, along with the ones that contribute to the development of rural areas and fulfillment of accession requirements.

Elements of the rural development programme:

- Product development, promoting alternative income activities.
- Development of tourism in rural areas, developing craftsmanship in rural areas.
- Adoption of new forms of cooperation in the fields of production and retail.
- Forestation activities.
- Innovative community development.
- Implementation of investments based on regional cooperation for water drainage.

Eligible organisations:

- County Regional Development Councils,
- Small regional organisations,
- Private and joint enterprises,
- Local governments, their organisations and institutions,
- Universities, colleges and other educational facilities,
- Research institutes,
- Economic chambers, enterprise and sectoral organisations,
- Registered civil organisations, foundations,
- Individuals with agricultural production certificates,
- Cooperates with any organisation mentioned above.

In specific cases, a maximum of 90% funding can be obtained. The upper limit of investments is 80%, and 50% depending on whether the organisation concerned is non-profit or profit oriented. The budget is not limited until the own contribution is provided. In the case of investments carried out by profit oriented organisations the funding ratio cannot exceed 50% of the total cost. In the case of investment, the applicant has provide at least 20% of own contribution. In non investment type programme elements (eg.: education, consultancy), funding can reach 90% but at least 10% own contribution has to be provided in the form of cash. The ratio of funding is determined on the basis of eligible costs.

Eligible costs can be the following:

- purchase price of equipment,
- expansion of existing equipment, in the case of transformation the cost of those activities that can be connected specifically to the equipment,
- though general income tax cannot be funded but tax return can be requested for the applicant,
- training costs which occur with the education of necessary workforce required for launching the development,
- service costs related project objectives,
- training related to the programme, marketing, PR activity, cost of market research publication etc.

The following elements are not eligible for funding:

- salary and salary type costs,
- leasing fees,
- costs of real estate,
- costs of continuing or completing initiated investments.

Instead of the detailed introduction of rural development programme elements, here is a list of their titles:

- Product development, support for alternative income activities,
- Development of tourism in rural regions, thermal- and spa tourism, development of rural craftsmanship, preserving cultural heritage,
- New forms of cooperation in the field of production and retail,
- Forestation activities,
- Innovative community development,
- Water drainage infrastructural developments based on regional cooperation.

3.8. ISPA

The PHARE Programme was complemented with the ISPA (Instrument for Structural Policies for Pre-Accession) and SAPARD (Special Action Programme for Aid to Agricultural and Rural Development) funds in 1999.

The task of ISPA is identical with that of the *Cohesion Fund* provided for EU member states. So its objective is to assist the implementation of pre-accession strategies for countries participating in accession partnership in the fields of transportation development and environmental protection. It applies to Bulgaria, the Czech Republic, Estonia, Poland, Latvia, Lithuania, Hungary, Romania, Slovakia and Slovenia (*table 10*).

Table 10. The allocation of ISPA funds among the countries

Country	Minimum rate	Maximum rate
Bulgaria	8.0%	12.0%
Czech Republic	5.5%	8.0%
Estonia	2.0%	3.5%
Poland	30.0%	37.0%
Latvia	3.5%	5.5%
Lithuania	4.0%	6.0%
Hungary	7.0%	10.0%
Romania	20.0%	26.0%
Slovakia	3.5%	5.5%
Slovenia	1.0%	2.0%

Source: CEC: Inforegio News

Principles of fund operation:

- supports sustainable development,
- supports the implementation of a transportation system that is more environmentally friendly than current ones,
- enforce environmental protection costs in the expenditures of infrastructural developments,
- compulsory environmental impact assessment with all projects.

During its activity, the Fund adapts to the *transportation development policy of the Community*, and its *environmental action programmes*. Regarding the finance of Fund activities, accordance with other financial tools of Union, and planned activities of the European Investment Bank and the European Reconstruction and Investment Bank and the World Bank is constantly monitored. The allocation of funds from ISPA is determined on the basis of population, the GNP per capita, the size of dry land and other economic and social factors. The implemented ISPA projects from the previous year are also evaluated, as well as the deficiencies in transportation infrastructure and environmental protection. The total budget of ISPA for the 2000-2006 financial period was set for 7.28 billion Euros, calculated with the rates of 1999, with an accessible 1.04 billion Euro for each year. The Commission evaluates the experiences of fund utilization each year, after it made a decision on the allocation of ISPA among the countries on 20th July, 1999.

45% of the funds are devoted to environmental protection and 55% to finance transportation projects. Funds are aimed at financing projects that fit into the environmental protection policy of the Community and are in accordance with the current priorities of the environmental protection action programme while serving the adoption and implementation of the EU's environmental protection regulations in beneficiary countries.

In the field of transportation those projects can be funded, which are concerned in the European transportation passages outlined in Helsinki or contribute to the interconnection of national transportation networks with Trans-European networks and provide access. This means, that national transportation networks have to be suitable for integration into European networks.

The Programme supports:

- preparation of preliminary studies, until they deal with the need of planned action implementation,
- technical type actions, including information necessary for different actions and dissemination,
- preparation of comparative studies about the estimates of community fund effects,
- those actions and preparation of studies, which contribute to the development, monitoring and evaluation of projects, strengthening and coordinating their accordance with Accession Partnership
- the establishment of those actions and preparation of studies which ensure the efficient management and implementation of projects.

Since the ratio of support through the fund can reach 85% of resources provided by the public sector within the investment costs of projects, the funding ratio is partly determined on the basis of government co-financing capacity. Such investments can be those infrastructural projects, where use has to be directly or production investments in the environmental protection sector where the principle of "who pollutes, pays" is applied.

Funding forms:

- co-financing of approved programmes,
- supporting direct users through a transferring entity on the basis of agreement between the Community and the beneficiary state,
- co-financing of approved projects,
- support for consultants.

The lower limit of funded projects is 5 million Euros. The projects have to reach the critical scale, which results in measurable, significant improvement in the supported field.

The project proposals have to include the following information upon submission:

- name of implementing organisation,
- the nature of investment, description, costs, location, including actions made in the interest of providing access to transportation networks
- introduction of European interests,
- work implementation schedule,
- cost-profit evaluation, including direct and indirect effect on employment,

- examining possible environmental impacts,
- introducing the priorities and situation of the National Environmental Protection Strategy
- information about public procurement regulation, information about competition regulations,
- financial plan that includes the economic indicators of the project,
- accordance of actions to Community policies,
- those information, which ensure the efficient utilisation of future investments.

The most important criteria of selection:

- the medium term economic and social benefit of the project should be measurable with used resources,
- the efficient management of planned actions should be ensured,
- the project should be in accordance with priorities outlined in the Accession Partnership,
- the project should contribute to Community policy with regards to environmental protection and Trans-European network compatibility,
- the project should be compatible with Community policy and it should be consistent with their actions,
- transportation infrastructure and the balance of environmental protection should be ensured in the planned actions.

The following database has to be compiled with the plan proposals:

Economic evaluation:

- Name, type, category and location of the project. Name of fitting transportation channel,
- Project description,
- Expected benefits,
- Investment costs,
- Change in money transaction,
- Internal return rate,
- Net current value,
- Return time,
- Planned finance.

Planned scheduling:

- Project implementation period,
- Preparation period,
- Planning,
- Delivering tender documentation,
- Tendering period,
- Execution period.

Preliminary report:

- Country report: Name, objective and total development costs of the project,
- Description of the project, level of preparedness. Political decisions, administrative approvals. Preparation documents,

- Accession effect. Display of Helsinki channels. Accordance with EU transportation and environmental protection policy, competition policy and standard systems,
- Financial plan. Instruments, funding ratio, co-financing, approval implementation,
- SWOT analysis and risk assessment.

The Commission has to reach a decision regarding the submitted proposals within three months of the submission which has to be published in the official paper of the Community, the Official Journal of the European Communities. The Commission decides about the total amount of funds to be granted to the project, annual breakdown of the schedule has to be made following this. If the project is longer than two years, the scheduling of fund payments depends on the annual schedule of financial and implementation plans. If the project covers less than two years, or its total budget is less than 20 million Euros, then 80% of the fund can be transferred in the beginning of the investment.

Beneficiary countries, belonging to the authority of the Programme, have to set up bodies dealing with programme management and monitoring. It was an important criteria for the EU that these two functions should be separate from each other. The monitoring performed by the monitoring body has to guarantee the orderly implementation of financial operations, prevention of irregularities and revealing losses. The beneficiary state has to inform the Commission about these actions and the structure of monitoring systems, which have to guarantee the efficient utilisation of programmes.

Following the completion of the projects, six months are provided for the beneficiary state to prepare the final report and submit it to the Commission.

The final report has to include the following:

- Description of performed tasks, accompanying physical indicators, expenditures according to categories, and decisions regarding the transfer of funds.
- Information about all public decisions.
- Proof about the accordance of performed task with decisions about the payment of funds.
- Original estimates, forecasted results, which include the actual data about the beginning of the project, steps of project management, verification of financial forecasts, prognosis of economic and social effects, furthermore the indicators and costs of environmental protection actions.

A separate commission has to be established for monitoring where members include the beneficiary country, the Commission, the European Investment Bank and representatives of local and regional governments where necessary. Monitoring is aimed at determining the suitable physical and financial indicators to measure the efficiency and results of projects. The comparative analysis of indicators regarding the implemented actions and original plans and objectives has to be carried out in all cases. The process of project implementation has to be examined from the aspect of various problems and management as well. The aim of the evaluation is to examine the efficiency and effects of applied resources from the aspect of implementation and management including those factors that could result in the deficiency of results

The beneficiary countries of the programme can complement ISPA funds with resources from international financial institutions such as the World bank, the EBRD, or the EIB. The central and eastern European countries have considerable experiences in the utilisation of these supplementary funds in the years following the change of regime. For example the EBRD in itself has funded 28 transportation projects until the end of 1995, with its 924 million ECU loans which contributed to investments with a total cost of 3657 million ECU.

Hungary expect an annual 72.8 – 100.4 million Euros based on the decision by the Commission. The utilisation of these funds is ongoing, the electricity supply of the Boba–Bajánsenye railway line along with the renewal of line between Boba–Zalalövő, Budapest–Cegléd and Budapest–Kelebia have been funded from these funds. ISPA funds will have a greatrole in the construction of Hungarian motorways to country borders, as well as in the construction of waste water management facilities in Budapest, Győr and Sopron.

3.9. The agricultural and rural development policy of the EU, the SAPARD programme

There are a number of regulations and publications in the European Union that deal directly or indirectly with rural development. The Cork Declaration, as the founder of a new aspect, is considered to be decisive.

The European Rural Development Conference in Cork called the attention to the importance of rural areas and sustainable rural development, while it also defined those principles, objectives and methods that could provide a basis for rural development. "Sustainable rural development must be put at the top the agenda of the European Union and become the fundamental principle which underpins all rural policy in the immediate future and after enlargement."

The objectives of rural development according to the Cork Declaration:

- preventing migration from rural areas,
- combating poverty,
- stimulating employment,
- providing equal opportunities and
- responding to growing requests for more quality, health, safety, personal development, leisure and improving rural well-being.

The need to preserve and improve the quality of the rural environment must be integrated into all Community policies that relate to rural development. There must be a fairer balance of public spending, infrastructure investments, and educational, health and communications services between rural and urban areas. A growing share of available resources should be used for promoting rural development and securing environmental objectives. During the later refinement of the objective system in the Common Agricultural Policy market policy, trade policies and social policies received an increased emphasis.

Prior to the 1999 Berlin summit of the Commission in March, rural development was implemented indirectly within the framework of the EU Common Agricultural Policy (CAP). Article 39 of the Rome Treaty outlined that agriculture and commerce with agricultural products has to be included in the Common Market and that the establishment of internal market conditions has to be accompanied by the development of the Common Agricultural Policy (CAP).

On the basis of these, objectives of the CAP are the following:

- increasing agricultural productivity through the improvement of technical development and the rationalisation of agricultural production and the best utilisation of production factors, especially labour force,
- establishing favourable income and living standard conditions of population employed in agriculture,
- protection of agricultural producers and consumers from external effects through the stabilisation agricultural markets,
- ensuring the safety of food supply in order to enable member states to produce basic products and thus be relieved from fluctuations of the global market, furthermore,
- increase endeavors to satisfy consumer demands at a reasonable price.

Following the creation of the Rome Treaty, agricultural ministers of the EEC developed the cornerstones of CAP in Stresa in 1958, which were the following:

- agriculture is an essential element of national economy and society,
- the central regulatory element of agricultural market is price,
- close relationship is essential between the development of agricultural strategy and market policy,
- the improvement of agricultural structure enables the integration of agriculture into the overall development of national economy,
- the production and competitiveness of family farms have to be increased.

With the development of CAP, the regulation of agricultural markets gradually became part of community authority. Common agricultural market organisations were established, which included price regulation, funds, actions regarding storage and balancing, as well as actions to stabilise export and import.

Beyond the establishment of joint organisations of agricultural markets, the other significantly important element of CAP is structural policy. In the beginning, the basic objective was to assist in the establishment of farms that could provide socially acceptable incomes for families through the development of productivity. In order to implement this objective, the created objective and instrument system was expanded and became more focused on the integrated development of rural small regions over the course of time.

With the gradual liberalisation of the global market and due to general overproduction, agriculture was losing its role as an increasing ratio of funds was spent on ensuring the livelihood of European producers. Another feature of agricultural market funds is that direct support of products promoted the development of larger farms, while smaller farms were losing the ability to meet the main objectives, establishing the possibility of providing livelihood on family farms. This led to property concentration at a significant scale in France, the United Kingdom and Germany, which did not only have direct economic consequences, but also induced social and environmental problems through the population loss of rural areas.

During the later refinement of the objective system in the Common Agricultural Policy market policy, trade policies and social policies received an increased emphasis. All these external and internal factors lead to the outlining of a new, comply agricultural policy in the Union from the end of the eighties. A significant milestone of this was the 1999 reform of CAP, which defined a new direction. It outlined the transformation of market support systems to a complex rural development policy as a new objective. This, accompanied by the gradual elimination of market supports, introduced the system of structural and environmental protection actions with an increasing emphasis. It was recorded as a basic principle, that direct product funds have to be decreased gradually but continuously until 2010 and have to switch to the more differentiated support of producers. Currently, the primary instruments of handling basic, existing economic differences, as we have seen, are found not in agricultural but rather in Structural Fund systems. Though the objectives of these two systems are identical, their nature and instrument system differs and as a result they can only express reinforcing effects if they are well coordinated.

While the aim of Structural funds is to reduce structural differences among regions with different development levels, to strengthen the internal cohesion of specific regions establishing equal opportunities in economic-social development through the establishment of basic infrastructural and institutional conditions, regional development is aimed at developing a complex development policy that takes economic-social-environmental factors into consideration.

So Agenda 2000 brought to life the first comprehensive rural development policy of the Community, which was based on multifunctional agriculture, targeting the whole economy beyond producers and the wider rural society. The agricultural sector still remained the basis of rural economy, but it was declared that agriculture in itself cannot ensure the economic and social viability of rural communities and create such a cultural and economic environment that can stop the migration of rural population.

Based on the approach by Agenda 2000, the integrated development requirements of rural areas has to be considered increasingly beside the market regulation actions and requirements of competitive European agricultural demands along with the social and environmental needs of today's society.

Items included in Agenda 2000 partly support the fact that agriculture has a number of functions beyond production, which includes the preservation of rural values and heritage, on the other hand recognizes that income opportunities outside of the agricultural sector also have to receive an important role in rural development policy.

The principles of rural development policies can be summarised as follows:

- The multifunctionality of agriculture, its diversified role in food production and beyond. This includes the development of services provided to farmers
- The integrated and comprehensive approach of rural economy in the interest of creating new income sources and preserving rural cultural heritage.
- Flexible support system based on subsidiarity, which promotes decentralisation and communication at a regional and local level, as well as between the member state and the Community.
- Transparency in the planning of the programmes and in management, based on a simplified and accessible legal background.

The most important step of Agenda 2000 in the development of rural development was to combine the existing actions of rural development into one comprehensive package and increased the degree of integration among the different types of funds.

3.10. Three main directions of rural development

1. Strengthening field and forest management

This objective is primarily supported by actions aimed at the modernisation of agricultural plants and quality agricultural product processing. The viability of agricultural plants is achieved through supports to young farmers and the early retirement of farmers. Forestry became professionally acknowledged as an important element of rural development. The objective of the action is to make forestry eligible for funding where it plays significant ecologic roles as well.

2. Improving the competitiveness of rural regions

The most important objective is improving the life conditions of rural societies through diversifying economic activities and supporting the establishment of new economic activities. These actions are aimed at creating alternative income sources for farmers, their families and the wider rural society. The support for producing non-food products is anew element in rural development.

3. Preserving the environment and other unique rural heritages of Europe

Agricultural environmental protection actions support the application of environmentally sound agricultural methods. This action provided a legal frame for the recognition, that the role of agriculture is not only production but also the preservation of the environment. It is complemented by the action, which extends traditional compensation payments to those areas where farming is strictly regulated due to environmental protection reasons.

The decisive principle of the new rural development policy is decentralisation and flexibility. Member states can establish rural development recommendations on the basis of this for the most suitable geographical units. They can construct the list of rural development actions to be implemented naturally, within the regulative framework. The distribution of funds aimed at rural development is also in the authority of member states.

The creation of the 1257/1999/EK regulation was a significant step in the administrative and financial management of rural development, where the recommendations of Agenda 2000 were reflected in the field of related Community funds. Accordingly, in the case of regions belonging to objective no. 1 or no. 2 programmes are prepared within the framework of Structural Funds and are financed through the Orientation or Guarantee Section of EAGF depending on the region.

The regulation defines the community fund frames of sustainable agriculture. Other instruments of Common Agricultural Policy and structural Funds are attached to rural development actions contributing to the implementation of CAP objectives. Rural development actions integrate into actions affecting the development and structural transformation of underdeveloped regions. The actions of rural development are inseparable elements of programme like regional development.

So, the new direction places the emphasis more on supporting the producer instead of products, gradually promoting the implementation of multifunctional agricultural interests. Funds are primarily aimed at achieving the above mentioned rural development objectives through farming activities and their transformation.

3.11. Actions for achieving the objectives of rural development policy

The regulation includes all actions regarding the direct development of agriculture and rural development, along with agricultural environmental protection and forest management. It can be seen that a part of the actions are identical in nature and scale with that of the SAPARD regulation, other elements are in special accordance with the development level of member states and requirements. The average ratio of community fund with specific actions is 40%, in unfavourable areas 50%.

Agricultural investments

The objective of the action can be production cost reduction, increasing productivity or regrouping, improving quality, improving natural environment, hygiene conditions and the life conditions of animals or the diversification of activities. Funds for investments can only be given to farms that are economically viable, consider regulations regarding hygiene and animal protection and where the farmer has appropriate professional expertise and proficiency. The rate of support is maximum 40% of the eligible costs, 50% in unfavourable areas, plus 5-5 percent in the case of young farmers, so 45 or 55%.

Funding for the start up of young farmers

Farmers younger than 40 years old, if they possess the appropriate expertise and are starting up an agricultural enterprises for the first time, and consider the basic regulations of farms are eligible. The fund can be paid either in one installment, or interest rate support for covering the costs of the loan.

Vocational training

Funds for professional training are mostly aimed at implementing the quality regrouping of production with the application of production methods that are in accordance with landscape conservation requirements, or it assists financial support for retrainings to serve economic or ecologic functions in forest management.

Early retirement

This action provides perpetuity for those older farmers who give up their farming activities. This action assists the change of older farmers to younger, more prepared farmers, promoting the viability of farms, and the utilisation of non-agricultural areas.

Support for regions with unfavourable conditions

Compensation type funds can be provided to areas in special condition or under specific regulation to ensure ongoing land use, protecting landscape, and preserving sustainable farming systems. An isolation is necessary for this, prepared by the member state about the unfavourable region. This has a determined regulation system, but the latest regulation changes provide a wider range of movement for member states.

Agricultural environmental protection

Funding can be provided to those farmers who wish to uptake the fulfillment of requirements regarding agricultural and environmental protection for at least a five year period. In businesses beyond the application of usual good farming practises, they are obliged to provide such additional services, that are not outlined by market support or compensation type funding forms. The form of fund can be direct motivating, income complementary or surplus cost refund.

Improving the processing and retail of agricultural products

This investment support promotes the improvement and rationalisation of agricultural product processing and retail to improve the competitiveness of products and added value creation. The fund can be given to the person in the highest position of the enterprise.

Forest management

Funds to forest management have to contribute to the preservation of economic, ecologic and social roles of forestry. Accordingly, funds can be provided to local individuals, governments, and organisations to support investments in forestry and related areas or to the establishment of forestry organisations for forestation purposes on land used for agricultural activities.

Development of rural regions

This is the funding form that can be given to activities that are not in accordance with any of the previously mentioned activities in rural areas.

Rural development actions can be classified to two groups:

- Accompanying actions of 1992: agricultural-environmental protection, forestation, early retirement. Complementing it with funds for areas that are environmentally vulnerable, which will be applied horizontally, in all regions of the Community. The EU funds these activities through the Guarantee Section of EAGF.
- Actions serving modernisation and diversification: investments related to agricultural plants, start up fund for young farmers, food processing and marketing support, forestry fund, rural development. These funds are treated separately according to regions. In the case of regions belonging to objective no. 1 and 2. (so in Hungarian regions as well) these actions are included in regional programmes, thus contribute to the realisation of objectives in the Economic and Social Cohesion Policy. In this case, the rural development regulation is a part of the legal framework about Structural funds. In the case of regions belonging to objective no. 1, the finance of modernisation and diversification activities is funded from the Orientation Section of EAGF. In the case of regions belonging to objective no. 2 funds are provided from Guarantee Fund of EAGF. In the case of areas outside of objective no. 1 and 2 rural development regulations for modernisation and diversification are part of the supplementary administrative and financial regulation to be applied horizontally. These actions are launched through member state initiatives in a decentralised manner (*table 11*).

Table 11. Expenditures of the Common Agricultural Policy 2000–2006
(billion euro, price level of 1999)

Name	2000	2001	2002	2003	2004	2005	2006
Total CAP expenditures	40.9	42.8	43.9	43.8	42.8	41.9	41.7
Market regulation actions	36.6	38.5	39.6	39.4	38.4	37.6	37.3
Rural development	4.30	4.32	4.33	4.34	4.35	4.36	4.37

Source: EC Directorate-general of Agriculture Newsletter 11 March 1999.

The rural development regulation includes the regulations of rural development programmes covering many years, including monitoring and evaluation (*Romány 1998, Sarudi 2003*). These regulation follow and adapt appropriate regulations of Structural Funds, in some cases refer to them as well. All rural development initiatives are co-financed by the Orientation and Guarantee Section of EGF.

Rural development through the funds making up the Guarantee Section of EAGF for the 2000-2006 period and is a part of the CAP budget package accepted at the Berlin Summit. From the table below it can be seen that amounts aimed at rural development are more than 10% of the CAP.

Priorities of the Hungarian SAPARD plan:

- increasing the competitiveness of agriculture,
- focusing on agricultural-environmental protection,
- promoting the adaptation of rural regions.

The eligible actions of the plan are:

- investments of agricultural enterprise,
- developing the processing and marketing of agricultural and fishery products,
- vocational training,
- supporting methods serving agricultural-environmental of landscape conservation methods,
- establishing and operating producer groups,
- village development and renewal, protection of rural material and intellectual heritage,
- diversification of activities, developing economic activities ensuring alternative incomes,
- development of rural infrastructure.

Agricultural strategic objectives defined in the plan:

- stabilising competitive production standard and efficiently improving it in areas with good condition,
- supplying high standard of food and materials for domestic markets and the processing industry,
- efficiently increasing the incomes from agricultural export,
- establishing appropriate income standard and ensuring safety for the entrepreneurs of food industry,
- extending environmentally sound farming,
- increasing the population retainingability of rural areas,
- appropriate preparation for European union accession.

The rural development objectives of the plan:

- reinforcing the economic basis of rural areas, diversifying economic activities,
- increasing the efficiency of agricultural production, development of processing and retail sector in areas with good agricultural conditions,
- property settlement,
- changing to extensive farming forms in areas with unfavourable condition according the requirements of sustainable development,
- utilisation of areas suitable for agricultural production by introducing ecologic farming forms, considering natural and environmental protection regulation,
- preserving landscape, economic and cultural heritages in historical wine regions,
- establishing funding system for regions developing as „eco-regions”,
- support for biofarming, assisting the production and retail of bioproducts,
- promoting complex economic development programmes based on environmental and health culture,
- development of rural infrastructure, considering lifestyle and production culture requirements,
- preserving rural societies, professional and civil organisations and cultural values,
- renewal of villages,
- development of tourism, rural and agricultural tourism based on the diversity of landscape tradition,
- development of complex ecotouristic programmes

The programme places emphasis on the development of service sectors, which are targeting the improvement of living standards through the adaptation of supplementary activities. It can be seen that domestic priorities and funding forms are in accordance with the strategic tasks outlined in the SAPARD pre-accession programme. Certain elements are in accordance with funding areas outlined by the SAPARD Plan, others enable the efficiency of supplementary activities. These tasks have to have the necessary domestic co-financing background beside the Community funding budget.

In parallel with the preparation for the SAPARD programme, the year 2000 was the first year when the Budget Regulation ordered a separate source for rural development tasks, the Rural Development Directive, which gained an important role for the years 2001 and 2002.

Another important element in Hungarian rural development is the subsectors of tourism (eg.: village, health and eco-tourism, etc.) is the Economic Development Directive complementing the tourism development programme of the Széchenyi Plan. The project schemes of directives allow application for requesting government contribution to finance projects according to the above mentioned criteria.

The SAPARD programme is made up of the following chapters:

- Introducing the situation of the region,
- Describing the regions participating in the programme,
- Comparing the typical data of the region with similar data of the Union. SWOT analysis of strengths and weaknesses. Introducing experiences of previous funds,
- Objectives, strategy of the Development Plan,

- Introducing the objectives and related strategies of the plan, including the evaluation of economic, social and environmental effects both regarding costs and profits. Accordance with other community institutions also has to be included,
- Evaluation and selection of SAPARD funds,
- Evaluating SAPARD funds according to the priorities of the plan,
- Introducing planned actions of the Development Programme,
- Introducing regulation regarding competition regulation and public procurement,
- Selection criteria of eligible activities, projects,
- Financial plan,
- Institutions responsible for implementation,
- Process of monitoring, evaluation and responsible organisations.

Out of the 8834 projects submitted for the August 2004 deadline, 4176 was rejected due to lack of resources (in this case it is possible to apply for other Union funds), while 1908 were rejected due to formal errors. The 2750 funded projects were accepted with the following structure and funding amounts (*table 12*).

Table 12. The structure of funded SAPARD projects and the distribution of funds

Actions	Number of funded projects	Amount of fund (thousand HUF)	Total value of investment (thousand HUF)
Supporting investments of agricultural enterprise	1502	25 132 430	59 061 010
Development of agricultural and fishery product processing and marketing	342	19 616 688	50 345 745
Village development and renewal, preserving the material and intellectual heritage of rural areas	232	5 707 255	7 939 873
Diversification of the activity, developing economic activities ensuring alternative incomes	52	460 543	952 634
Development and improvement of rural infrastructure	611	14 631 098	20 209 836
Technical assistance	11	36 306	36 306
Total	2750	65 584 320	138 545 404

Source: MVH

The scale and amount of funds differs significantly with each action, but at least 25% own contribution is always required. In income generating projects, public financing can only be a maximum of fifty percent of total costs, EU funds can be 75%. In the case of SAPARD payments, the 75-25% distribution is generally typical. The original budget was 54 billion HUF, but due increased demands it increased to 65 billion HUF, partly through regrouping (5 billion from the National Rural Development Plan) and partly from supplementary national funds (6 billion). The total funding request compared to the sources was 217 billion.

3.12. Opportunities and prospects of Hungary following the accession

An important change that occurred in regional funding policy was the reduction of target areas and objectives in structural funds from six to three since 2000. These are the following:

- Objective 1: aimed at supporting underdeveloped regions, where the GDP is below 75 percent of the community average.
- Objective 2: assists the economic and social transformation of regions struggling with structural change (decaying agriculture, fishery etc.).
- Objective 3: supports the establishment and modernisation of education, training and employment systems.

Presently, *the most important target area for Hungary is the 1st objective*: Regions where the GDP is below 75% of the EU average. For the time being, Brussels accepted this classification for the Central region of Budapest and Pest county until 2007, although the region can already produce 98 percent.

Parts of Pest county can still be classified into objective 2 and receive funds, as these areas are struggling with structural changes. (table 13).

Table 13. GDP per capita in the Hungarian regions, 2000

Regions	Thousand HUF	In percentage of the national average	In percentage of EU 15 average	In percentage of EU 25 average
Central Hungary	1998	155	77	83
Central Transdanubia	1303	101	47	55
Western Transdanubia	1462	114	58	62
South Transdanubia	956	74	39	41
Northern Hungary	823	64	34	36
North Great Plain	809	63	33	35
South Great Plain	913	71	38	40
Hungary	1288	100	51	55

Source: Horváth, Gy. – Szaló, P.: Regional Statistical Annual, HCSO 2002.

The proof of EU trust in the Hungarian regional system, irrespectively of federal or unitarian developments, is that accessible funds were 1.030 billion Euro for 2004, 1.180 billion for 2005 and 1.464 billion for 2006. Hungary is treated as a single region by the EU for this transitional period.

The regional differences are well indicated in the table, the difference between the North Great Plain and the most developed Central Hungarian region is well over twofold.

3.12.1. Results of accession discussion

- Hungary accepted the implementation of economic and social cohesion policy and the utilization of funds according to EU regulations.
- The EU appraised the preparation of the National Development Plan, social discussions and the fact that Hungary had a brief but focused and transparent programme from the accession to 2006.
- The single national regional operative programme also had a favourable reception as Hungary, after considering the EU proposal, decided to implement regional development tasks through this programme. The success of the regional programme will also determine whether Hungarian regions can submit individual operative programmes in the new financial period starting in 2006.
- The favourable opinion was reinforced by the fact that Hungary had an established regional-statistical (NUTS) system.
- According to the joint decision, all Hungarian regions are classified into support category 1 (underdeveloped) until the end of 2006.

Hungary, on the basis of development and other indicators, can expect 12.2 percent of the structural funds allocated for the ten accessing countries between 2004 and 2006, and 13 percent from the Cohesion Fund. Hungary will be able to access 690 billion HUF of new development funds, which makes up about 1.2 percent of the gross annual domestic product (*table 14*).

Table 14. Funds to be allocated for Hungary
(2004-2006, million euro at price levels of 1999)

Source	2004	2005	2006	Total
Structural Funds	448	620	786	1854
Cohesion Funds	340	280	374	994
Total	788	900	1159	2847

Source: Horváth, Gy. – Szaló, P.: *Information by the European Commission 2003.*

- The amount of funds has decreased due to the expansion with ten members states, though we have consider that pre-accession funds were provided to candidate countries. In the past ten years the *PHARE*-, *ISPA*- and *SAPARD*-programmes provided 2 billion euros (490 billion HUF) to Hungary and only ten percent of these were spent on regional development programmes.
- The accession treaty guarantees the payment of funds until the end of 2006. In 2007, Hungary will participate as a full member in defining the objectives for the seven year financial period. The country can receive more significant funds in the new period.

3.12.2. Regional policy and future opportunities in Hungary

Since the most important objective of European Union regional policy is the development of underdeveloped regions, the 2004 May 1st accession of Hungary opened a new chapter in the development of undeveloped regions.

Beneficiary regions, distribution among regions and applicable funding rates are determined for a seven year period ahead within the framework of EU regional funding policy and development programming. The new financial period starts at 1 January, 2007, but newly accessing states can receive funds prior to this, in fact they can benefit from the so-called pre-accession funds (PHARE, ISPA, SAPARD) that will „run out” by the end of 2006. The seven year cycle is highly important from a planning aspect, since the affected regions can calculate with the entitlement and funding rate well ahead and, therefore development plans and concepts can be worked out and implemented with relative certainty.

The opportunities of newly accessing countries are likely to improve even further since the future of structural policy after 2006 is still forming, while the European Commission can count on the opinions and recommendations of new member states.

The region and the settlements are part of the unified European regional and settlement system following May 1st, 2004 and can exploit the advantages of cooperation establishing intensive cooperation with other regions.

The North Great Plain region, as the most underdeveloped Hungarian region, can still continually access increasing development funds to make economic and infrastructure developments and to facilitate new, innovative activities. The economic organisation of the region will strengthen, all-round relationships will be established with European regions and this will ultimately attract knowledge, technology and workplaces to the regions.

The competitiveness of cities, in the beginning primarily county seats (Doreen, Nyíregyháza, Szolnok) will improve as new sectors, knowledge centres and interregional relationships strengthen. Intensive relationships can establish along the inner borders of the EU, historical ties of regions and settlements along the border can renew and revitalize which will affect cultural and social life as a whole. Cross border relationships are also likely to strengthen.

The efficient utilization of funds, according to strict community regulations and the requirements of sustainable development, will greatly reduce environmental impacts, positively affecting environmental conditions and indirectly improving living conditions of habitants. This new, post-accession situation will lead to a more decentralised way of life and, with active local governments regions, including the North Great Plain region, will be able to implement development concepts that are more fitted to their conditions and environment. Ultimately, this could reduce differences between the specific region and the capital, diminishing cultural and income differences.

Over the long term, as a result of EU structural policy and regional funding system, cohesion will strengthen along with local patriotism, regional identity and initiatives from various regions (*Gábor et al. 2001*).

4. REGIONAL DIFFERENCES IN HUNGARY AND THE NORTH GREAT PLAIN REGION

Regional differences in the nineties were dominated by market processes, which typically resulted in increasing regional differences. Regional differences are connected to economic processes: social processes did not essentially modify existing disparities. Differences are most apparent between the capital and rural areas, between western and eastern Hungary and along the border.

4.1 Regional differences

The difference between the capital and rural areas is significant, which is partly justified by the historical role of Budapest. The economic transformation of the capital is led by business service and the development of commerce, which is accompanied by a changed organisation and employment structure. Its ties are dominated by world economic centers. The dependency on direct, central leadership loosened which was present in the relationship of the capital and rural areas. The central Hungarian region dominates in modern, added value type sectors, such as business services, research-development, tourism, and economic output (GDP/capita). This is partly due to its business leading function and innovation transfer (gateway function). The capital, with its service and typical big city feature, is the most important tourist attraction center of the country.

When examining economic development, public incomes and unemployment characteristics we find that the western-eastern division is very significant. The contrast is especially sharp between the efficient structural change of western and central Transdanubia and the dragging stabilization of north and east Hungary. This is apparent in the increased entrepreneurial activity, more significant presence of foreign capital and concentration of machine industry providing export west of the Balassagyarmat-Békéscsaba line.

Being located along the border meant a peripheral situation in the country, which was re-evaluated after the political regime change and economic system transformation. The western border region of the country became a zone of dynamic change, while South Transdanubia and the border regions North Hungary are characterised by underdevelopment. The existence of underdeveloped areas can be explained partly by historical and settlement structural (small village types) reasons. The consequences of social degradation due to migration and the increasing number of elderly people were aggravated by infrastructural deficiencies.

The dimensions of the above mentioned disparities resulted in the formation of small regions with different levels of social and economic development with a mosaic like structure. The economic map shows a number of growth axes with spectacular activity but also indicates a number of stagnating, "grey" areas. The elements of development are also present in the eastern part of the country in the form of large industrial plants, representing up-to-date technology. At the same time, even the developed Transdanubian regions have so-called inner peripheries. It can be concluded that the least developed regions are more proportioned and show greater regional differences. The ratio of foreign capital is typically high in dynamically developing regions along with entrepreneurial activity and usually have a low rate of unemployment. Regions with a favourable geographical situation such as the western border region and the dynamic centres (the capital and its surroundings, the

larger cities), dynamic axes along motorways have a priority advantage in the new economic structure.

Developing regions had mostly agricultural features, but with the infiltration of foreign capital and the increased entrepreneurial activity local economy transformed and showed signs of improvement. Revitalised regions, which were crisis areas but their industry renewed by now, represented a separate group.

Regions that are considered stagnating and underdeveloped from a social-economic point of view are characterised by worse than average unemployment and income conditions with a low ratio of foreign capital and entrepreneurial activity. The agricultural features, being located at country or regional borders, can all be reasons for this along with lack of a dominant regional centre.

Social-cultural differences originating from geographical location, proximity to borders and central-periphery, have a decisive impact on the state of human resources, living conditions of the population while the historical past can provide explanations to the underdevelopment or development of specific regions through transportation, settlement and geographical features. Natural conditions and human resources collectively determine development differences within regions, regional characteristics and future prospects.

4.2 Features of the North Great Plain region

In the north east part of Hungary, most of the region along the Tisza river, bordering three countries is perfect floodplain, with slightly undulate sandy surface. It has an outstanding natural resource, the Hortobágy National Park (part of world heritage) and thermal water.

Considering the inner conditions of the North Great Plain, almost half of the region's population lives in stagnating or underdeveloped areas, where unemployment and income conditions are worse than average and activity of foreign capital and entrepreneurs is very low. Again, the agricultural feature of the region, location at country and county borders and lack of a dominant centre can explain these. The typical settlement structure of the Great Plain is mixed with small village structure. Large settlements with a large number of population are typical mainly in the central and northern part of the region, however in the eastern, border parts of the region a small village type settlement structure dominates.

Its population is reducing at lower rate than the national average, the ratio of live-births is the highest in the nation. The ratio of socially disadvantaged groups (people with reduced ability to work, Roma) is high, their social-economic reintegration is dragging. The mortality rate is better than the national average. The quality of outpatient treatment shows great differences in the various small regions; access to health care is limited in the villages of the region due to deficiencies transportation infrastructure. Migration, which mostly affects the more educated groups, is the greatest nationally therefore the level of education is the lowest in the country.

As the economy of the region is relatively underdeveloped, only 32.7% of the total population is employed which is the lowest ratio among the regions. The income per capita is also the lowest here. Entrepreneurial willingness is low and the cooperation among companies is not satisfactory either. Market, production, financing and supply relationships are weak.

Compared to other regions of the country, this agricultural region plays an important role in national agriculture, providing a third of the domestic fruit production and half of the apple production.

It is remote from important economic centres due to its transportation conditions and geographical location, therefore the economic vitalisation of foreign capital is insignificant. A few larger industrial plants are present in the region, the dynamic development of the industry has not started yet (the processing industry, food industry, machinery and textile industry are dominant in the region, the role of high tech is relatively insignificant). The ratio of enterprises is still below the national average but the development of business services corresponds with the Hungarian average.

Access to the region, due to a long, single traffic line and lack of freeways is the worst in the country. The outward relationships of its western areas, due to the economic impact of the Central Hungarian region, are stronger than the ones directed towards Debrecen.

Tourism is diverse but, with a few exceptions, does not represent competitive magnetism in an international context: it has more of a domestic attraction. The most dominant tourist attractions of the region are the Hortobágy National Park, The river Tisza and Tisza-lake as well as health tourism.

The university and college institutions, offering high level training, are also important. The IT higher education and R+D can be a break-out point of the region. An existing problem is that education (both secondary and higher education) has not yet adapted to changing market demands. After the Central Hungarian region, the North Great Plain region has the most significant R+D institutional network, which is an important basis for higher education institutes. A serious problem is that relationship of R+D and the economy is still not sufficient. The most severe environmental problems of the region are the deficiencies in waste water and waste management, along with the decaying soil quality in the form of salination. Floodwaters and excess waters have been causing severe damages in expansive areas of the North Great Plain.

4.3 Assessing the situation of the North Great Plain region

The region is relatively poor in natural resources. Ploughland can be regarded as the most important natural resource, with significant natural gas reserves, carbon dioxide, thermal water and clay resources. The economic structure of the region shows a few peculiar features. Industry contributes the GDP to the greatest extent, this followed by agriculture with its 11.2% contribution to GDP which is twice as much as the national average. Agriculture is the most dominant in rural areas, while industrial production is concentrated in the larger cities. Agriculture has a strong tradition in the region; the conditions of agricultural production and processing are outstanding (there are a number of high quality agricultural products).

The population retaining role of agriculture in the North Great Plain is more powerful than in other regions and this can be maintained over the long term. In fact, considering EU tendencies, it could even gain strength. However, increasing employment in agriculture cannot be expected. The development of knowledge and labour intensive sectoral structure depends primarily on external sources and the self-organisation of employees in the agricultural sector.

The North Great Plain is a significant processing and production base in Hungary, with well developed food processing capacities and good quality agricultural products typical of this region.

The agriculture of the region represents about 11% in the total GDP of the region, while 11.5% of the active working population is employed in the sector. The GDP in forest and game management is somewhat higher than the national average.

4.3.1. Population

15% of the Hungarian population lives in the region which is significant. According to the latest data the population of the North Great Plain remained unchanged between 1993 and 1998. This is the only region where population did not decrease. The region displays positive demography compared to the national average. The number of schoolchildren is higher in the North Great Plain region than the national average. The number of pensioners is also higher. The number of active workers however, is far less than the national average. This indicates that a great number of active working population migrates from the region (especially the highly qualified) in the hope of finding work and higher living standards. The region is dominated by rural features, since population density is relatively low (86 people/km², compared to the 108 people/km² national average). It is typical of this region that a part of the population lives in scattered villages.

4.3.2. Education, R+D, employment, unemployment and labour market

Over 40 000 people, or 19% of the students in higher education institutions are located in this region. Nationally, following the Central Region the North Great Plain region has the second most important R+D network. Higher education are the most decisive basis of research-development potency of the region. The R+D sector is also very concentrated: its capacity is mostly tied to Debrecen, and only two other county centers have significant R+D activities. This concentration cannot be regarded as unfavourable. The main task in this area is improving cooperation among the R+D institutions of the region.

The decrease in active population can be explained with the increasing ratio of inactive population. At the end of 80's and beginning of the 90's, the number of handicapped pensioners increased significantly. A reason for this is that at the time of surplus labourers many employees chose to become handicapped pensioners.

Employment decreased primarily in the industry. The decrease is true in almost all sectors, except for public administration (which is the biggest employer of the region). In the last five years, every fourth workplace ceased in the region, four out of five in the transportation and communication sector.

The ratio of unemployment (16,3%) is significantly above the national average. (9,6%). In Szabolcs-Szatmár-Bereg county this number reached 19,4% and in some small regions this number is far beyond the national average. In Szabolcs-Szatmár-Bereg county one out of ten unemployed is starting his or her career.

The problem of long term unemployment is more significant in the North Great Plain region than in other regions of Hungary, it is a serious problem in Szabolcs-Szatmár-Bereg county, since this county is in a peripheral position.

4.3.3. Equal opportunities

Promoting equal opportunities will be implemented through the activities funded by the government and the EU at the level of priorities and appropriate actions. It is known that equal opportunities have to be approached from many sides.

Discrimination among sexes is general in Hungary, including the North Great Plain region, women make 17-20% less than men. Employees in Szabolcs-Szatmár-Bereg county earn a lot less than their peers in the two other counties. Especially disadvantaged groups in the

region: long term unemployed, unemployed graduates, the roma minority and pensioners below the accepted age.

The perspectives of the roma minority in the North Great Plain region are significantly worse than those of other citizens of the same area. Probably, they will become unemployed, and those who do are not likely to find a job again. Those who do find a job must work for a very low salary.

One of the main challenges of the North Great Plain regional program is to improve the employment perspectives of the roma minority and other disadvantage groups. The limitations of establishing equal opportunities are the following: restricted transportation possibilities, discrimination against the roma minority, disadvantage groups are left out of professional development opportunities, including women returning to work and the restrictive attitude of employers to disadvantaged groups, including the handicapped and the permanently unemployed.

4.3.4. Business size and business infrastructure

The economy of the North Great Plain region is dominated by small and medium sized enterprises, although there are significantly fewer SMEs, compared to the national average. Obviously, many things are needed to motivate the entrepreneurial culture of the region and to support the establishment of new, dynamic microenterprises. The number of enterprises per 10,000 people is far below the national average in all three counties of the region; therefore, two main actions are required. First, increasing the number of SMEs in the region. Second, increasing the efficiency of the cooperation among SMEs.

However, there is a well-established bank system in the region, and industrial parks, along with a network of technological centers, is being set up. The developed telecommunication infrastructure allows rapid information flow, both for economic organizations and public institutions. Therefore, the development of communication infrastructure is of significant importance in the North Great Plain region. The lack of professional consultation networks and the quality of business services are obstacles to entrepreneurs. The poor foreign language skills limit foreign investment opportunities.

The infrastructure of the North Great Plain region is far below the national average. The public sewage system has only reached 25% of its needed size and, as a result, sewage water endangers ground and surface waters. The establishment of waste water management facilities and regional waste management facilities is a target of regional development programs. The most important environmental water management problems of the North Great Plain region are caused by the floods of the Tisza and its tributaries. The water quality of the Tisza is greatly influenced by industrial pollution, originating from other countries. An important task is to establish an integrated monitoring system.

4.3.5. Tourism

The Great Plain is one of the most unique regions in Hungary from a touristic point of view, but values that have attraction for an international market are not developed enough to serve as a tourist product. From a tourism point of view, the difficult access of the region is a primary problem. The favorable natural conditions are outstanding. The coordinated development and expansion of touristic services is an essential environmental condition for exploiting opportunities in tourism. Special attention has to be focused on the geographical elements of the region [the Tisza river and Lake, Hortobagy, thermal baths].

The protection of natural resources and fauna in the protected areas is important, along with preserving architectural cultural elements and traditions.

4.3.6. Agriculture

The population retaining role of agriculture in the North Great Plain region is more significant and this function, considering EU tendencies, can strengthen gradually. Significant increase in agricultural employment cannot be expected. The development of the needs of the knowledge and labor segments depend on external resources and the self-organization of employees in agriculture.

The North Great Plain region of Hungary is a significant processing and raw material base, with highly developed food processing capacities and high quality of agricultural products. The agriculture of the region represents about 11% of the total GDP of the region, while 11.5% of active laborers work in the sector. The gold crown value in the region, along with forests and game management GDP, is somewhat higher, than the national average.

4.3.7. Peripheral and transportation conditions

The region's peripheral location is primarily due to its eastern location. Beyond this, a number of small settlements within the region are in a difficult situation [accessibility].

The quality of the road network and the density of public roads is significantly below the national average. The region has no highway connection, and this limits the economic development of the region. By Hungarian standards, the peripheral location of the North Great Plain region increases transportation costs, delays and the negative experiences of entrepreneurs/investors, which further aggravate economic problems.

Within the entire region, only the Budapest-Szolnok-Debrecen-Zahony [Ukrainian border] and Budapest [Keleti]-Szolnok-Bekescsaba rail lines are double tracked, and lack electricity. This lengthens traveling times by rail within the region.

Also, the region is also an important border crossing location, since 12% of the entire Hungarian border traffic goes through here. The road network, which is suitable for transportation, is not sufficient for the region to integrate into Western Hungarian and European road networks (*Baranyi 2001*). In Hungary, only the North Great Plain region has a joint border with the Ukraine. The North Great Plain region, due to its geographical location, can be the basis of developing relationships towards Eastern Europe (*Harsányi 2004*).

5. THE MOST IMPORTANT FEATURES OF EU AND HUNGARIAN AGRICULTURE

The **share of** Hungarian agricultural **production** in gross domestic product is low (*Beluszky 1993, Benet 1997, Buday-Sántha 2001, Pete 2000, Popp 2000*). This ratio fluctuated significantly between 1998 and 2004, the 3.6% and 4.4% value stayed low constantly (*Horn and Sütő 2000, Kapronczai 2002, Varga 2002*). Of course, the role of agriculture in the national economy and society is a lot more significant.

The economic growth in Hungary, which was more apparent than in the previous year, can partly be explained by the favourable formation of export and investments. Consumer demand increased slower, opposed to the previous three years, than the GDP in 2004. The slow growth was related to the income policy aimed at reestablishing the balance.

Investments grew by 8% compared to the previous year. The growth dynamics were primarily determined by the three dominant sectors (processing industry and transportation: 15-15%, real estate business and economic services: 13%). Developments in the processing industry, which play a decisive role in export growth, increased above average (17%) even in 2003. Processing enterprises increased their investments in developments significantly (35%) over the course of two years, establishing those production capacities that allowed the exploitation of economic prosperity. Investments of the transportation sector were primarily motivated by road constructions, real estate businesses while economic services were motivated by housing developments. Agricultural investments decreased significantly, by 25% in 2004, primarily due to changes in the support system.

The number of **employed** people at agricultural businesses employing at least 5 people was 107,600 in 2003, showing a constant small-scale decreasing tendency (*Bóday et al. 2001, Burgerné 2002, Fóti and Lakatos 1998, Tóth 2000*). The number of employed people indicated by workforce balances was 241.000. In reality, a lot more people were employed in agricultural production therefore, it is better to accept the statistical method that calculates the so-called workforce utilization. The basis of the calculation is the total working time demand of agricultural production, where an annual 1.800 hours are considered as one work unit or one person. The formation of this is indicated by the following numbers, which show that, although the number decreased, there are about 561.000 people working in agriculture. The role of agriculture in our society is more apparent from this aspect (*figure 2*).

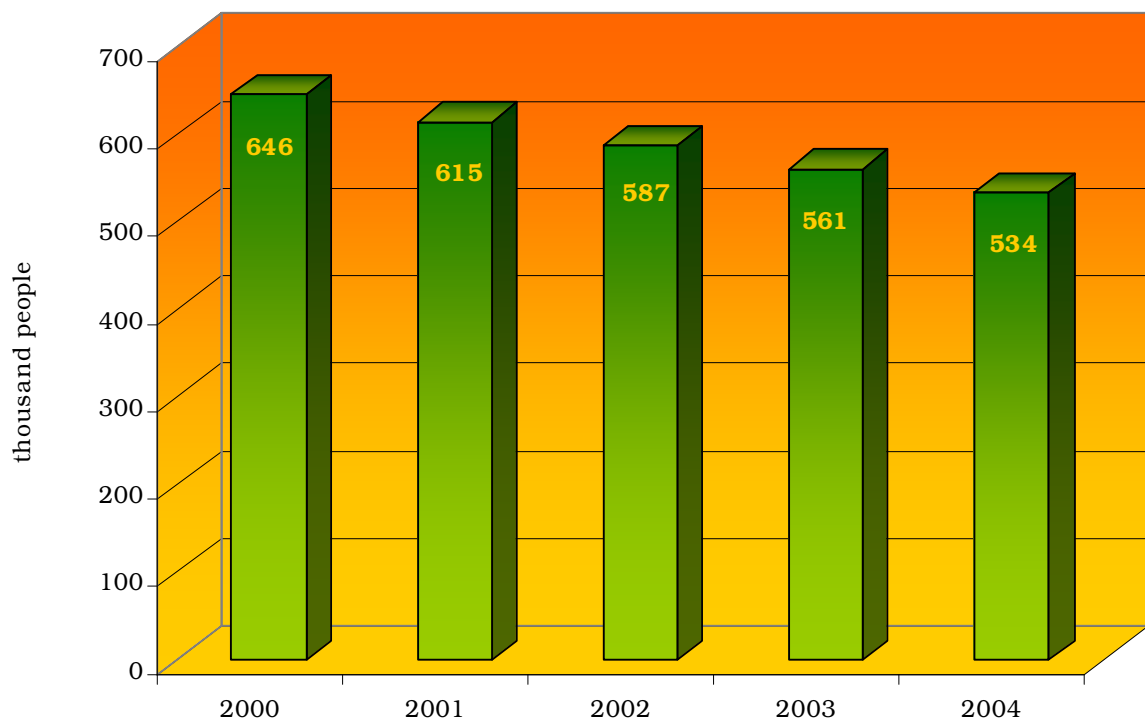


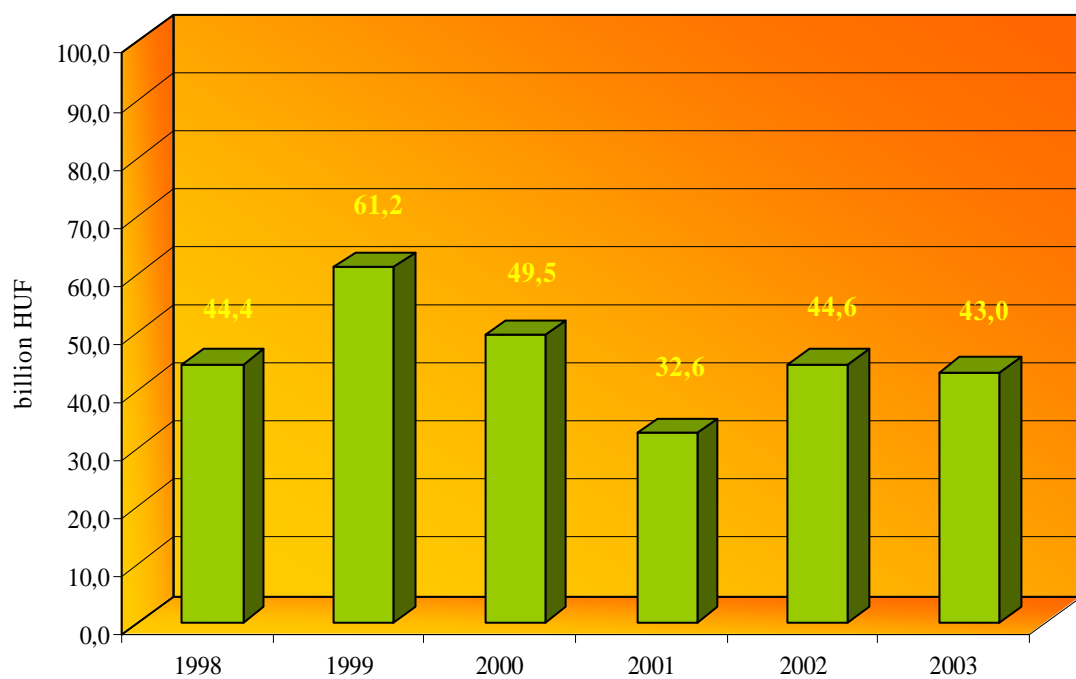
Figure 2. Calculated workforce utilisation of agriculture, thousand people (2000 - 2004)

5.1. Agricultural assistance

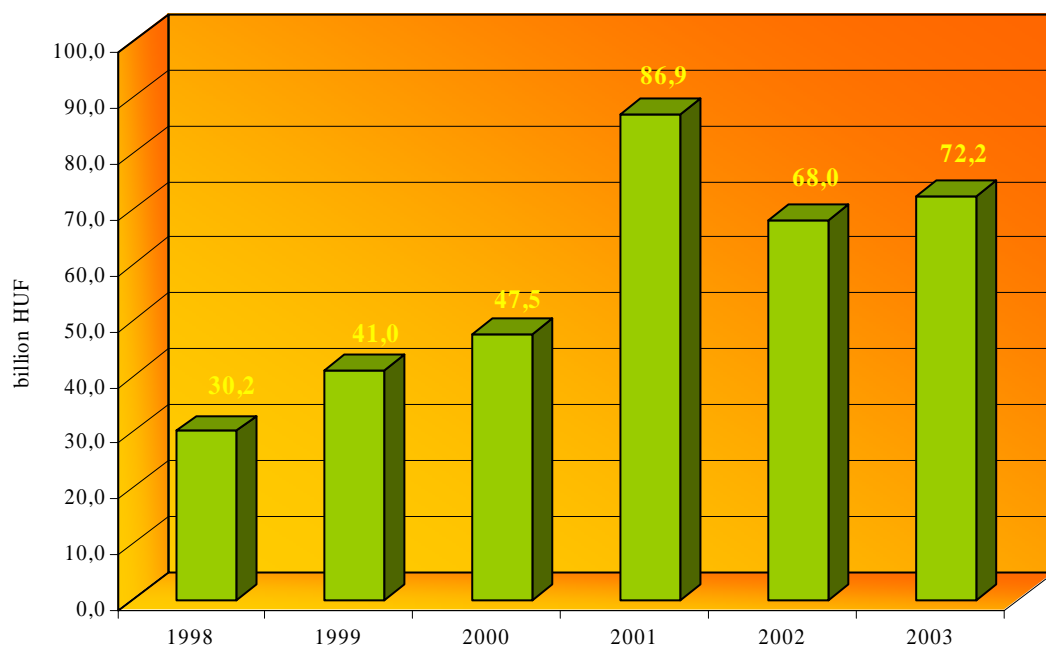
Agricultural production received a significant amount of **funds** (*Jankuné et al. 2001, Kovács 2004*). The two basic method of assistance provided from the budget until 2003 were the so-called market accession and agricultural production assistance. The total budget of these increased from the annual 74.6 billion HUF in 1998 to 115.2 billion HUF in 2003 (*figure 3*).

Five entitled target areas in 2004 were funded from so-called directives: forestry tasks, quality protection of soils, animal husbandry, fishery and game management. The directives were financed from own sources (subsidiaries, administrative fees, membership fees, fines etc.) which cover these expenditures.

The original funding directives of the five target groups were raised in the beginning of the year. This increase was possible due to remaining funds from 2003 (*table 15*).



Market accession assistance



Agricultural production assistance

Figure 3. The basic funding budget of agriculture, billion HUF (1998-2003)

Table 15. Funds financed from directives in 2004 (million HUF)

Title	Funding directives
Forestry	5014
Quality protection, utilization of soil	1611
Animal husbandry, support for breeding organisation	967
Funds for fisheries	204
Funds for game management	791
Total	8587

Source: MAR Finance Department

However, agricultural support is not limited to the funding mentioned above, but it is significantly complemented by other types of funds defined in the agricultural budget section.

The total funding directive was 217.020 million HUF in 2003, which also means that 381.900 HUF per capita was the share for an agricultural producer (calculated in workforce balance) bringing the **direct funding to 890.000 HUF**. The rate of funding compared to the value of agricultural output (production) is 15-16%. As a result of the EU accession, the funding system has totally transformed in 2004. The so-called running budget funding and the national funding that included development funding replaced market accession and production funding. Professional assistance shrank to an insignificant rate and the role of fundings planned in the National Development Plan to be complemented with EU funds and funds in the framework of separate agricultural sector budgets (*Alvincz 2000, Antalóczy 1999, Kürthy Jankuné et al. 2001, Némethi 2003, Sipos 1998*). The total amount of funds in the budget excluding the EU funds was 155.9 billion HUF.

A typical tendency of the past years in Hungary is that the slow decrease of agricultural **land area** continued. Cultivated land area was 6.193 thousand hectares in 1998 and this reduced to 5.867 thousand hectares or by 5.3% by the end of 2002. Ploughland also reduced to 4.516 thousand hectares from 4.710 thousand hectares; the rate of decrease was 4,1 %. According to 2004 statistical data the area occupied by forest favourably increased to 19% and unfortunately the ratio uncultivated area increased to 17% (*figure 4*). An important and severe problem in our agriculture is the **scattered** nature of agricultural land.

Fortunately, the number of legal entity and non-legal entity organisations increased between 1998-2002, and accordingly the number of private enterprises has decreased. This is a movement towards production concentration (*Magda 2000, Alvincz and Varga 2000, Baranyi and Süli-Zakar 1997, Molnár 2000, Tóth 1998*). At the same time, this is not reflected in the ratio of land areas, since in the same period the area of land cultivated by economic organizations has decreased considerably. The size of land owned by private farmers also decreased but to a smaller extent.

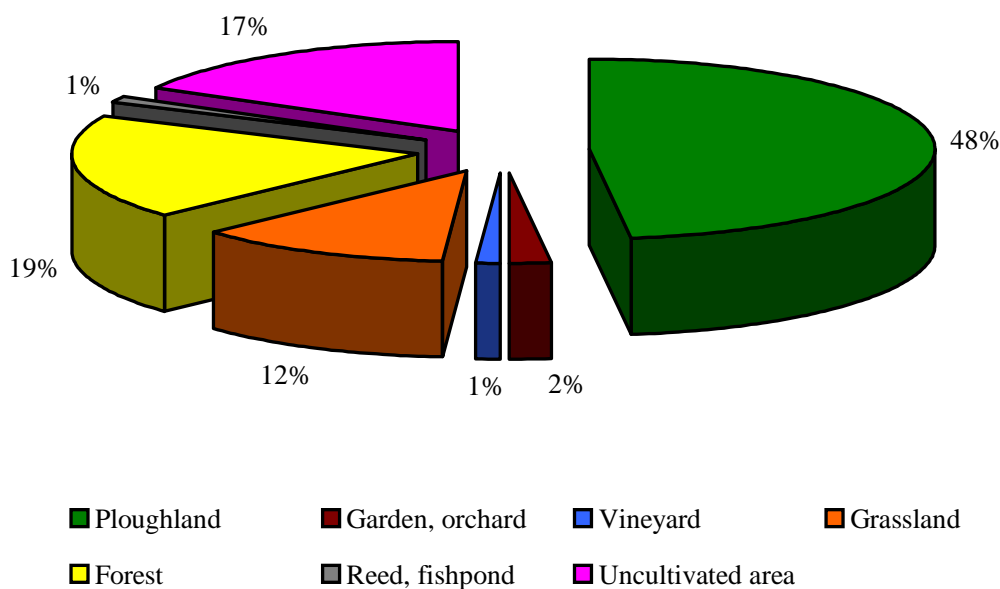


Figure 4. Land use in Hungary, % (2004)*
 *total land in 2004: 9,303 thousand ha

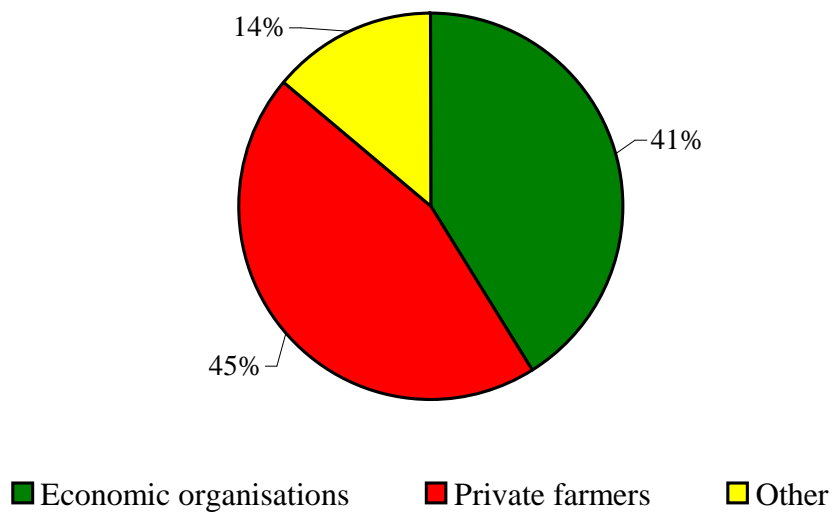
As for ploughland, 60% of it is cultivated by private farmers in underdeveloped conditions (*figure 5*).

5.2. Agricultural investments and production

We cannot be satisfied with the formation of agricultural **investments** by any means. The ratio between agricultural investments and total investments in the national economy has fluctuated significantly throughout the years, altogether the volume increase of investments was 39.4% between 1998-2003, which also means that it is below the price index, therefore the real value of investments has clearly decreased (*table 16*).

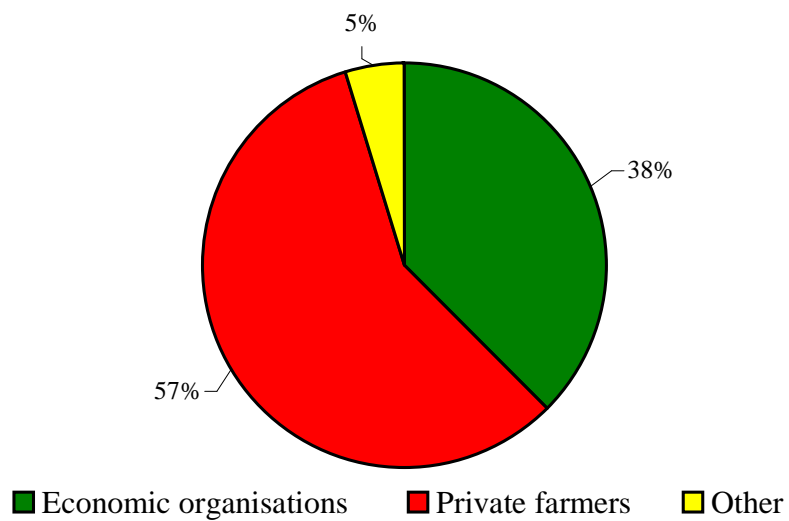
The actual directive for development funds in 2004 was 26.767 billion HUF, 80% of which, 21.6 billion HUF is the determination. The actual determination according to data of September 30, 2004 was greater than estimated in the beginning of the year, 24.027 billion HUF were paid based on previous entitlements.

*Land use according to farming types, % (2004)**



*total land area 9303 thousand ha

*Utilisation forms of agricultural areas, % (2004)**



*total land area 5863 thousand ha

Figure 5. Land use and utilisation forms of agricultural areas according to farming types, % (2004)

Table 16. Agricultural investments, billion HUF (1998 – 2003)

Year	Billion HUF	Ratio %
1998	76.7	3.6
1999	79.4	3.3
2000	76.8	2.7
2001	92.5	3.0
2002	96.5	2.9
2003	106.9	2.6

Source: MAR Finance Department

The development type funds of 2004 were almost all used to fulfill determinations and this situation will still remain unchanged in 2005, since pervasive obligations can be estimated at 18,9 billion HUF. The main funded areas included: funds for the establishment of plantations and construction investments (for the expenditures of construction and food industry investments related to animal husbandry and plant production launched in the previous year for the phase of 2005), funds for machinery (for financing leasing fees, interest subsidies of machinery procurements of previous years and for technological equipment), for the reconstruction of water damage prevention facilities, for melioration and funds for irrigation system developments. Funds for new developments can be accessed by applying through SAPARD, the National Rural Development Plan and AVOP in 2005 (*table 17*).

Table 17. The formation of development funds in 2004 (million HUF)

Funds	Directive
Determinations: Funds for agricultural machinery	5912.9
Construction, establishment of plantation	13849.0
Young agricultural entrepreneurs	500.0
Melioration and irrigation development	800.0
Technical development	100.0
Other	438.0
Total determinations	21599.9
Interest subsidy of agricultural development loans	50.0
Establishment of plantations	1800.0
Establishment of forests	3317.0
Total development funds	26766.9

Source: MAR Finance Department

The financial department switched to so-called zero based planning regarding the professional directives and central investments in 2005. This means that a sixth of total budget expenditures, about 1000 billion HUF, is not distributed on basis aspects but through „applications”. The change was made in the interest of reducing demands for surplus expenditures (Agárdi and Bauer 2000, Madarász 2000, Márton 1998). Tasks were re-evaluated, so that unnecessary activities could be eliminated and parallels could be avoided and through inside regrouping savings could be made. Altogether the objective was to ensure economic development according to the development plan of the 2004 convergence programme.

The agricultural budget proposal of 2005 contains national funds, the domestic and EU payments to finance the NVT and AVOP, the spreading payments of SAPARD contracts for the next year (new contracts cannot be made), as well as SAPS and market supports of the EU guaranteed by the Hungarian National Treasury.

According to the bill presented to the parliament, the central budget provides 158.4 billion HUF for the agriculture which will be complemented by 169.3 billion HUF from the EU (table 18). The provided total funds is 327.8 billion HUF. The increase compared to the 2004 directive is 13% (figure 6). The surplus affects mainly the EU funds, the increase originating from the Hungarian budget is very modest: 4.3 billion HUF.

Table 18. Agricultural and rural development funds
(million HUF, exchange rate of 254,5 HUF/€)

Directive	Central budget	Funds of European Union
In the budget section of MAR	154445.7	50459.8
In the budget section of EU integration	3982.7	9411.9
In the budget of MAR and EU integration section	158428.4	59871.7
Indirect funds by the EU guaranteed by the Hungarian National Treasury		
Market funds		20178.3
Unified land based fund		89278.6
Total	158428.4	169328.6

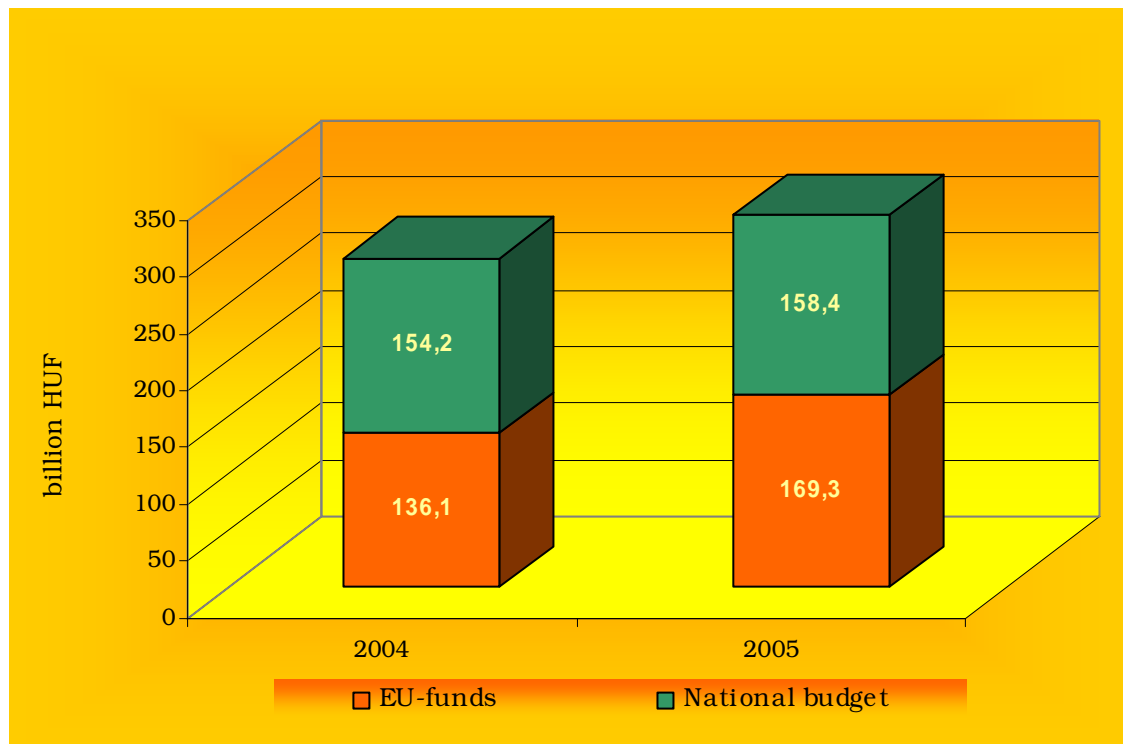


Figure 6. The fund structure of agricultural and rural development
(directives for 2004-2005, billion HUF)

The greatest increase occurred in the agricultural and rural development directives, financed jointly by the EU, with a 43% surplus. Land based funds increased by almost 17% originating from EU budget. According to expectations, 13% more will be spent on so-called market actions (intervention, dry forage support, starch refund, wine market regulation etc.) compared to this year.

The unfavourable shift in investments also contributed to the fluctuation of **agricultural production** and the fluctuation in outputs in previous years.

The annual fluctuation of wheat production was almost twofold (*figure 7*) but significant yield differences were also present in maize production (*Dobos et al. 2000, Drimba et al. 2003, Harsányi et al. 2003*). Naturally, this significant fluctuation in production is related to changes in growing area size but can also be traced back to the technical standard of agriculture (*Harsányi et al. 2003*).

The fluctuation of production had a relatively low impact on the annual fluctuation of **import**, of course this is more apparent in the **export** volumes of specific years (*Balogh and Papp 1998, Juhász et al. 2002*). Contrary to relatively large agricultural funds, international relationships in the field of agricultural trade cannot be regarded as satisfactory (*Lökös 1996, Szabó and Juhász 2001*). The import of agricultural goods increased by 49% between 1999 and 2003, while agricultural export increased only by 23% if expressed in USD. The increase was especially significant in the case of meat, dairy, vegetable-fruit and drink products. The export of forage and crops significantly expanded however, vegetable-fruit and drink export did not increase and meat export also increased minimally.

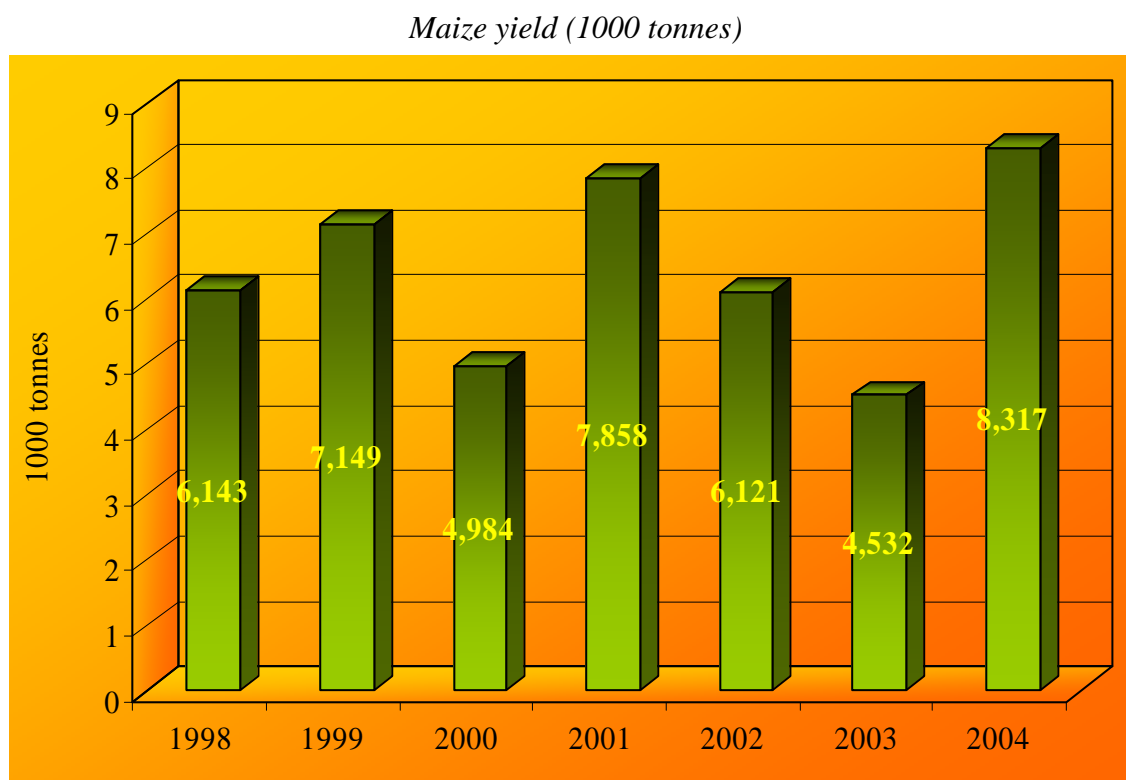
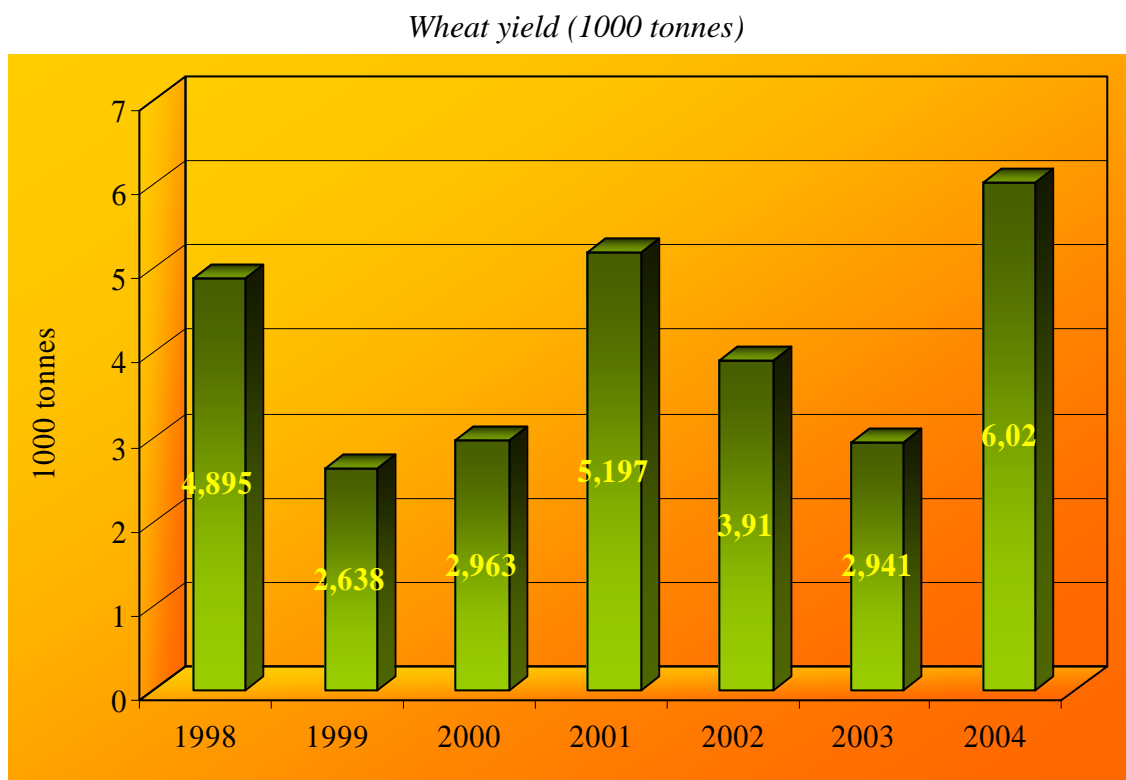


Figure 7. Crop production data, 1000 tonnes (1998-2004)

The price level of agricultural goods was low, considering both acquisition and retail prices, and the gap had an increasing tendency. All this backlashes at profitability, which is partly due to the unfavourable formation of prices and expenditures. Incomes made in agriculture, which includes the incomes of private farmers and entrepreneurs, varies greatly and has a decreasing tendency.

The gross average monthly income at agricultural enterprises with at least 5 employees was 89.273 HUF in 2003. This means that this sector is significantly underdeveloped, reaching only 65% of the 137.187 HUF national economy average.

In conclusion, we can detect a very low technical standard in agriculture and this is partly due to the high ratio of small land properties which cannot produce competitively along with the relative decrease of investments (*Csete 1995, Harsányi and Nagy 2001, Juhász 1997, Kapronczai 2003, Kartali 2001*). All this leads to extreme yield fluctuation and ultimately to the gradual decay of agricultural foreign trade position (*Szűcs 1990, Szűcs and Tanka 1994*). The solution is to **assist the EU competitiveness of farms at viable levels** and we cannot ignore the fact that individual small plots are a thing of the past.

5.3. Assessment of the North Great Plain region on the basis of agricultural results

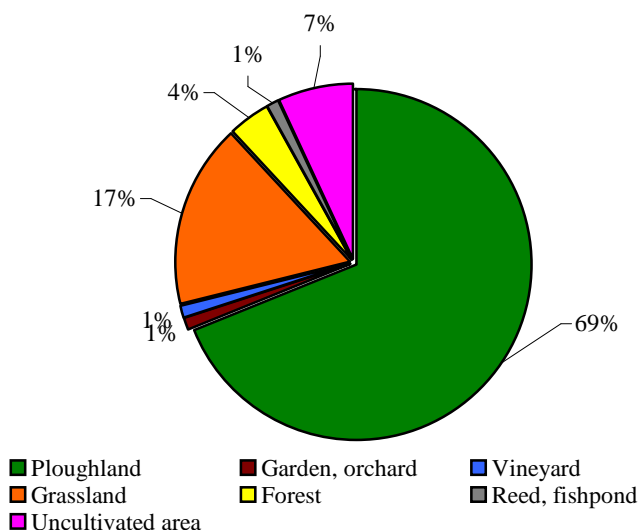
The region produces a fifth of the gross domestic product in national agriculture, it is one of the greatest producers of cereal crops and maize and the food industry represents a significant ratio in the industry (*Baranyi 2002, 2004, Harsányi et al. 2003*). Its share from the GDP and operating economic organisations is far behind the national average (*Baranyi 1994*). The lack of capital is typical feature of enterprises. The region does not attract foreign capital, the region ranks fifth in the invested foreign capital per capita. The indicators of employment, average income and unemployment are less favourable than the national average.

Its area is crossed by a common traffic axis from east to west, and the Szolnok and Záhony rail- and motor-road that has a significant capacity. This is the only region where motorway has not been completed. The existing roads are overcrowded and sometimes there are gaps among the settlements. The developments of the coming years include, motorways from the east to west and north to south, the river Tisza as a potential traffic opportunity, and airports of county centres. The region has 389 settlements with 55 city status. The settlement density is relatively low, 22 settlements per 1000 square kilometres. Cross border relationships are also significant, currently cultural and educational relationships are typical.

The most important natural resource of the region is soil (*Dorka et al. 2003, Harsányi 2001, Nagy and Dobos 1999*). The most favourable being loess of Szolnok and Hajdúság and chernozem in the Jászság. Different sandy soils dominate the Nyírség, with scattered forest, meadow and moorish soils. The Hortobágy is characterised by saline soils. The climate has extremes, with frequent drought and excess water (*Nagy 1999, Nagy et al. 2002*).

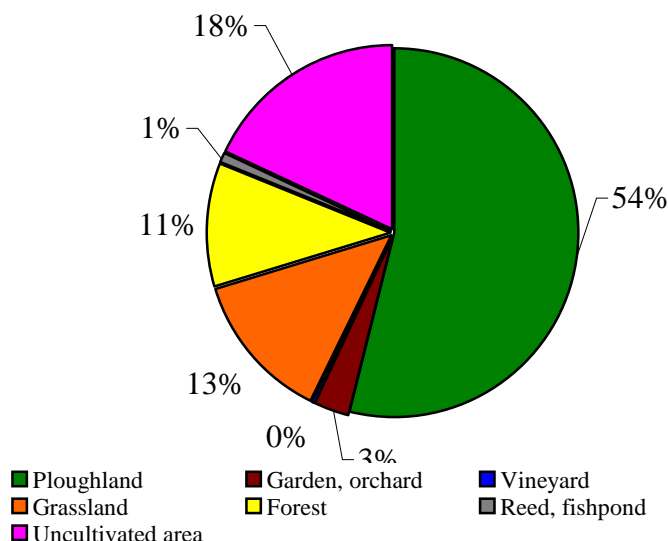
At the general census of 2000, farmers were using about 1 million 250 thousand hectares of land. 95% of this growing area, which is 18% of the national average. 55% of the growing area is cultivated by private farms. The average size of growing area is 5.5 hectares, economic organisations have 591 hectares and private farms 2.9 hectares.

The area of ploughland decreased to 54%, forest to 11% and the uncultivated area to 11% in 2002 compared to 69% ploughland area, 4% forest and 7% uncultivated area in 1950 (figure 8, 9). The agricultural land 35-35% of which can be found in Hajdú-Bihar and Jász-Nagykun-Szolnok counties, 30% of it in Szabolcs-Szatmár-Bereg county. 77% of the agricultural area is ploughland, 19% grassland, 4% orchard, and a small ratio of vine (Nagy *et al.* 1999, Nagy *et al.* 2000, Németh *et al.* 2002, Rátónyi *et al.* 2004). 33% of the ploughland is occupied by eared crops, which is 39% nationally. A reason for this is low profitability and the greater volume of traditional plants typical of region (figure 10).



*The total land area in 1950: 1,782 thousand hectares

Figure 8. Land use in the North Great Plain region, % (1950)*



*The total land area in 2002: 1,816 thousand hectares

Figure 9. Land use in the North Great Plain region, % (2002)*

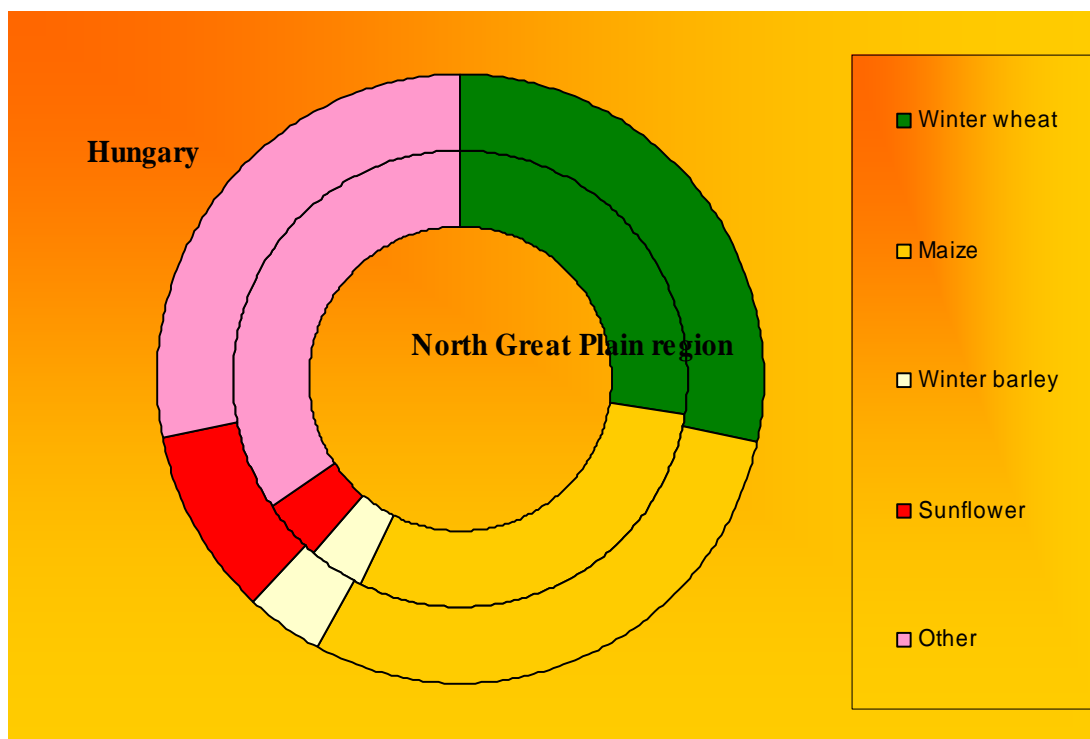


Figure 10. The utilisation of ploughland according to main plants, % (2004)

The area occupied by the most important arable land crops (wheat, maize, sunflower, potato, vegetables) is dominantly (59-88%) cultivated by private farms. The role large agricultural enterprises is only more significant in the case of sugarbeet (56%) and lucerne (58%). 37% of vegetable, 35% of sugarbeet and 29% of total potato growing area can be found in the region (*Nagy and Kovács 1999, Nagy et al. 2002, Sulyok et al. 2004*). Sugarbeet is a typical plant of Hajdú-Bihar, potato is typical in Szabolcs-Szatmár-Bereg while the growing area of vegetables is significant in both counties.

The dominance of large plants in agriculture ended in the nineties, new farm types were established and their number has doubled in the region. The number of private farms increased by four times. There are 220 thousand private farms in the region, 23% of the national total. The 1550 economic organisations make up 18% of the total.

A third of the private farms are very small, cultivating less than a hectare. The ratio of farmers cultivating 1-10 hectares is 27% and only 6% occupy larger land. Less than a third of economic organisations cultivates maximum 50 hectares, 34% 50.1-500 hectares. 31% of them owns land larger than this.

The agricultural nature of the region is reflected by the fact 23% of those employed in agriculture live in the region out of the 15% total. 5100 people are private entrepreneurs. The ratio of private entrepreneurs increased by 7% since 1995 in the sector. The role of those employed in agriculture has decreased. The number of employees between 1995 and 2002 decreased to two third (20 thousand) which is 7% of the national average compared to the 10% of 1995.

The region's agriculture produced 115 billion gross added value in 2001, a fifth of the national product. The role of the sector is decreasing. Lack of capital is typical in agriculture. Only 2% of foreign interest enterprises operate in this sector and only 25 of their investments are directed here.

Strengths:

- The geographical location of the region favourable, large consumer markets to the east are easily accessible.
- Climatic and growing site conditions are especially favourable for the production of specific vegetable and fruit types, and the necessary production experiences are also present.
- Rich thermal water resources, its utilisation is also an important factor in tourism.
- Large number of cheap and comparatively well trained and capable workforce.
- Favourable age distribution of the population, the rate of youth is larger than average.
- Accessible areas with favourable conditions for greenfield investments.
- Debrecen University, located in the region, is a significant national basis of research and development.

Weaknesses:

- Uneven regional development; high ratio of underdeveloped settlements is a serious problem.
- Low capacity public road network compared to the traffic. Some of the settlements are difficult to access.
- The standard of investments is constantly lower than the national average.
- Transformation of industrial product structure and the introduction of modern production technologies is slowly progressing. The ratio of export quality industrial goods is lower than the average. Opportunities provided by industrial parks are still unexploited.
- The local small and medium size enterprises are in lack of capital; lack of interest from foreign investors.
- Relatively few workplaces are created; unemployment ratios are unfavourable.
- The education level of the population and foreign language skills are below the national average.

5.4. Assessment of the agricultural sector in Hajdú-Bihar county

Considering the natural conditions, a number of agricultural sectors have excellent conditions in Hajdú-Bihar county (*Baranyi and Dancs 2001*). The wet continental climate (the amount of precipitation generally decreases from the west to the east, but relief conditions sometimes have an opposite effect) of the affected euroregion, its diverse soil conditions have allowed the establishment of different agricultural cultures (*Baranyi et al. 1998, 2002 Láng et al. 1983*). The number of employees in the sector has a decreasing tendency but agriculture is still of key importance in the region.

The dominance of state ownership has decreased in the past decades and the dominance of private ownership is typical in the sector. Typical of structural change in Hajdú-Bihar county that while there were 41 state farms and 82 cooperatives in 1990, there were 2546 enterprises (930 were joint enterprises) in 2001 in the sector of agriculture, forest management and fishery.

After the transformation, agriculture functioned as the employer of workforce that became redundant in the industry, therefore in the beginning of 1990 the ratio of those were employed in this sector increased. The wage of agricultural employees, compared to other sectors, is low so it is not surprising that it is not considered as a „trendy profession”. The

solution would be the spread of the concept that would regards agriculture as more of a lifestyle rather than an economic sector.

Ecologic conditions are suitable for the cultivation of almost all plants, but there are plants which are typical of this region, in fact specialised production forms have also evolved. An outstanding cultivation form of plant production can be found in the region (ploughland, pastures-grassland, gardens, orchards) and this originates from the traditions of the population, while they are also open to possible innovations (*figure 11*).

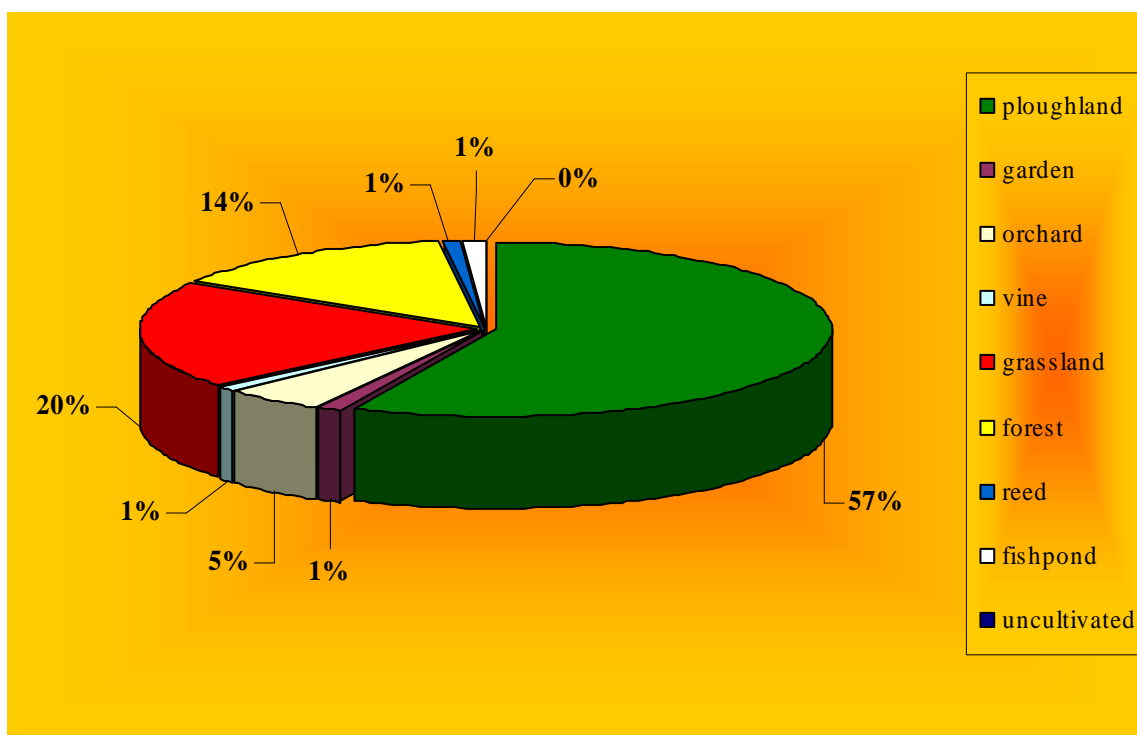


Figure 11. The land area of Hajdú-Bihar county according to cultivation sectors in, % (2004)

There is a mixed picture regarding the average plot and industry plant size in the region; prior to 1991, large industry plant sizes dominated, following the change of regime the number small, private plots has increased. Property structure became extremely scattered, which limits the improvement of productivity and the modernisation of agriculture. Small plot production cannot be regarded as market conform, only in the case of intensive cultivation sectors (vine-orchard, vegetable, walk-in plastic tunnel). In less intensive cultivation forms the renewed concentration of land property is necessary to achieve profitable farm size. Small and micro size family farms can be a source of complementing incomes but its real future can only be imagined with rural tourism.

In the 1990's the distribution of land area according to cultivation sectors only changed to a small extent. The size of uncultivated areas increased by a small extent.

The dominance of ploughland can be detected from the total agricultural area, their ratio has stayed constant throughout the past decade. The ratio of pasture-grassland is also significant. The ratio of vine, gardens, orchards is much lower than these and its is gradually decreasing. However, these subsectors play an important role in the economy of the region due to greater added value.

6. ASSESSMENT OF REGIONAL DEVELOPMENT FUNDS IN HAJDÚ BIHAR

An important element of XXI. decree of 1996 about regional development and regional regulation is the establishment of decentralised regional development funds. There was an expansion in funds in 1998: the modification of the regulation regarding the objective and recipient (CXXXI. Regulation of 1997) established decentralised funds, the utilization of which was transferred to the authority of County Regional Development Councils. The distribution of financial instruments is determined by the level of underdevelopment: according to regulations accepted by the parliament (30/1997., 24/2001.), population the GDP/capita, the number of habitants in the beneficiary region, the number of local governments and the personal income tax per capita are all considered. On the basis of these, Tóth and Kozma (2004) studied in details the results and ratios of awarded decentralised funds in the sectors and and small regions. GDP/capita in Hajdú-Bihar county, as indicated, is one of the lowest among the country's regions (*figure 12*). The county received considerable amounts from decentralised regional development funds in the examined years (*figure 13*). Hajdú-Bihar county, on the basis of GDP/capita indicators, ranks fourth among the counties, ninth in 1994, tenth in 1996, 1997, 1998 and twelfth in 2000, and thirteenth in 1995, 1999 and 2001.

The Regional Development Council of Hajdú-Bihar county awarded more than 6.6 billion HUF, calculated at prices of 1996, for applications submitted from the county between 1996 and 2002. (*table 19*), that resulted in 30 billion HUF of investment.

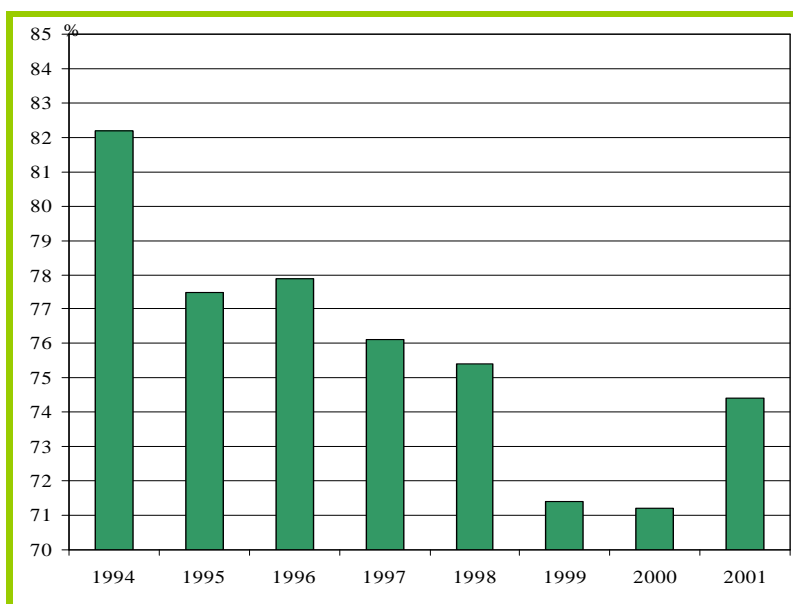


Figure 12. The economic development of Hajdú-Bihar county on the basis of GDP/capita indicators in the percentage of national average (1994-2001)

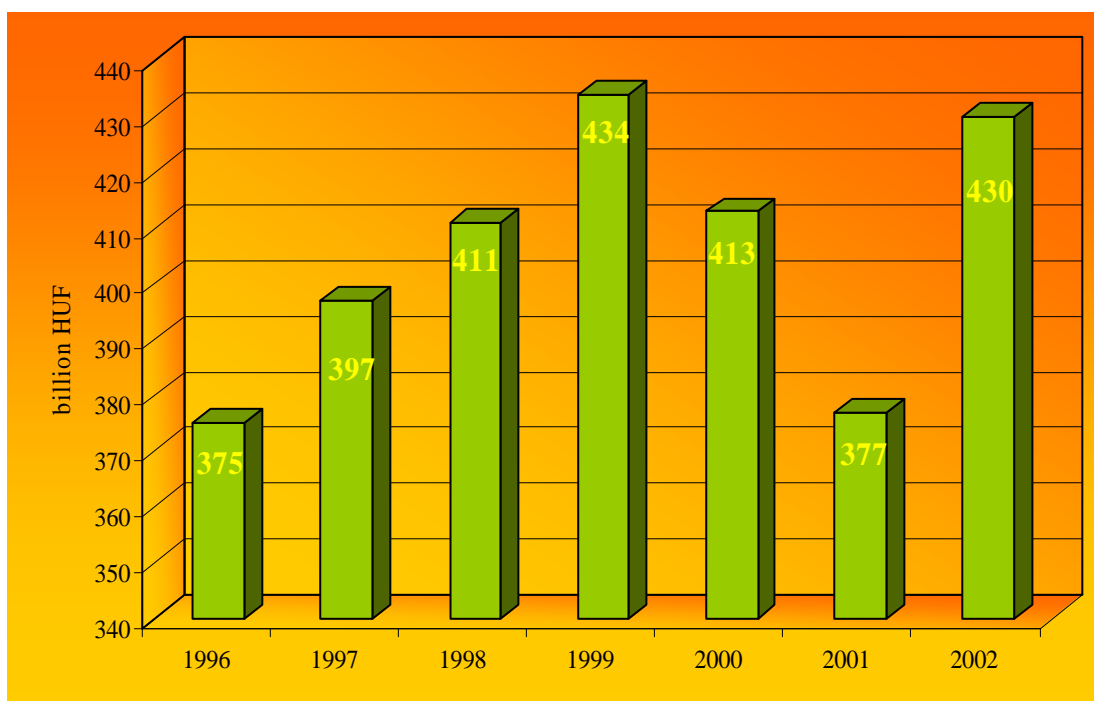


Figure 13. Decentralised regional development funds of Hajdú-Bihar county (million HUF)

Table 19. Decentralised regional development funds in Hajdú-Bihar county 1996-2002

	Regional development directive	Development fund for regional balance	Decentralised objective type fund
The amount of awarded funds (million HUF)	1.929	3.700	967
The number of funded projects	418	595	231
Amount of funding per project (thousand HUF)	4.615	6.219	4.187
The value of implemented investments through funds (million HUF)	12074	15695	2264
Ratio of funds (%)	16	24	43

The amount of fund per project was similar in the case of Regional development directive and the Decentralised objective type fund, while in the case of Development fund for regional balance an applicant received greater funds.

Economic organisations received mostly from the Regional development directive, they had to provide larger portion of own contribution. Development fund for regional balance also funded waste water management investments in the past years and these investments require great expenditures. Regarding the Regional development directive we can say the it supported food industry and agricultural investments in the examined period (*table 20*).

Table 20. Funds from regional development directives in Hajdú-Bihar county 1996-2002
(%, calculated at 1996 prices)

Funds	According to sectors	Rate of funds in the sectors
Development of production infrastructure	10	11
Agricultural developments	23	17
Food industry developments	14	11
Preparation of development plans	6	66
Commerce-service	9	23
Industrial developments excluding food industry	26	19
Tourism	10	15
Human infrastructure	2	28
Total	100	16

When examining the size of funds, we can say that lower than average funds were awarded for the preparation of development plans and commerce-service, while larger than average funds were awarded for the development of production infrastructure, food industry developments and tourism.

In the case of development funds for regional balance (*figure 14*), road construction, development of waste water infrastructure and surface water drainage received the greatest amount of fund, the ratio of awarded funds was the highest in the case of gas line investments, public work and social programmes. The size of funds were lower than average in the case of gas and water line network developments, public work and other investments, while education and waste water network developments were higher than average. When evaluating the decentralised objective type funds (*figure 15*), we can see that the highest funds were awarded to education investments, while the role of health care, public lighting and public administration developments is about equal

When examining the size of funds, we can mention three such areas where funds were lower than average: health care, cultural and public administration investments, while higher than average funds were awarded for the development of public lighting.

When comparing the rate of funds and awarded funds in the specific sectors we can see that where the rate of funds was lower (production infrastructure development, development of tourism, waste water utility development, education) the amount of fund was greater than average. While in the case of sectors where funds were higher than average (preparation of development plans, commerce-service, gas and water utility development, public work and social programmes) lower funds dominated.

The development programmes defined in the Regional Development Concept of Hajdú-Bihar county (HAS RKK, 1997): complex rural development, village-water-forest tourism, the economic diversification of the county, creating work places, quality agricultural development, development of transit channels, development of business zones and logistic centres, communication and infrastructural developments, connected small region development, stabilising basic health care service, development of regional innovation centre, higher education and research development, partnership and development of institutional system, culture, education and tourism developments.

In conclusion, we can establish that the awarded funds by the Regional Development Council were in accordance with the objectives defined in the development documents of the county and were aimed at promoting the efficient implementation of tasks defined in the document.

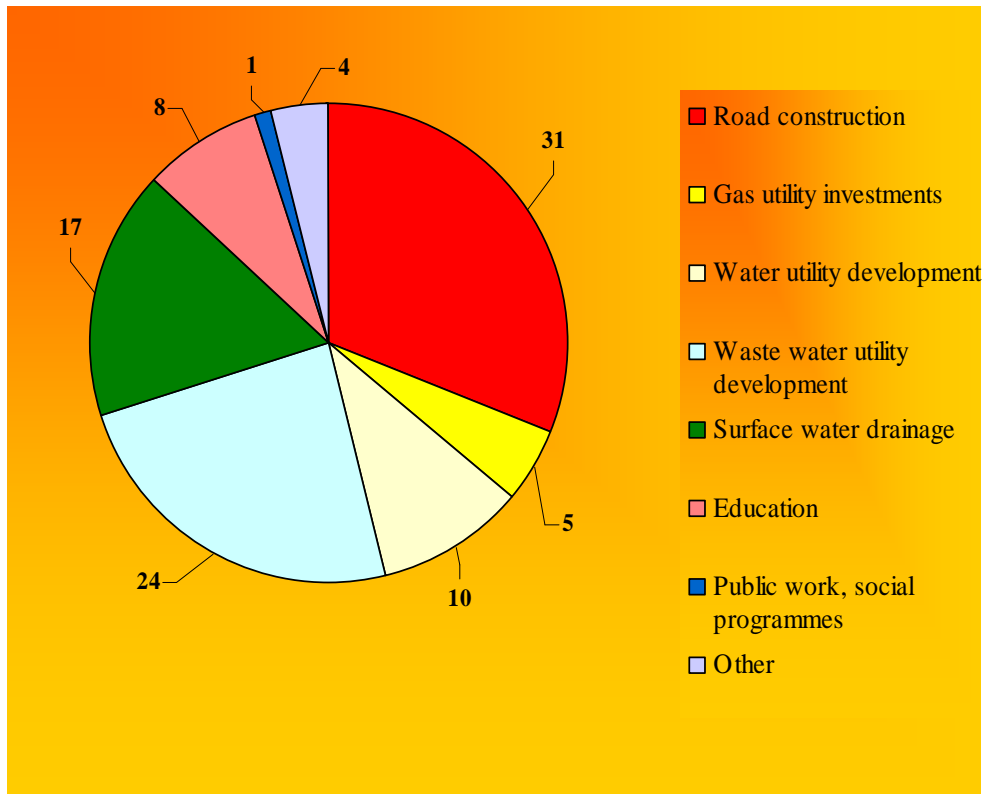


Figure 14. Development funds for regional balance in Hajdú-Bihar county 1996-2002
(%, calculated at prices of 1996)

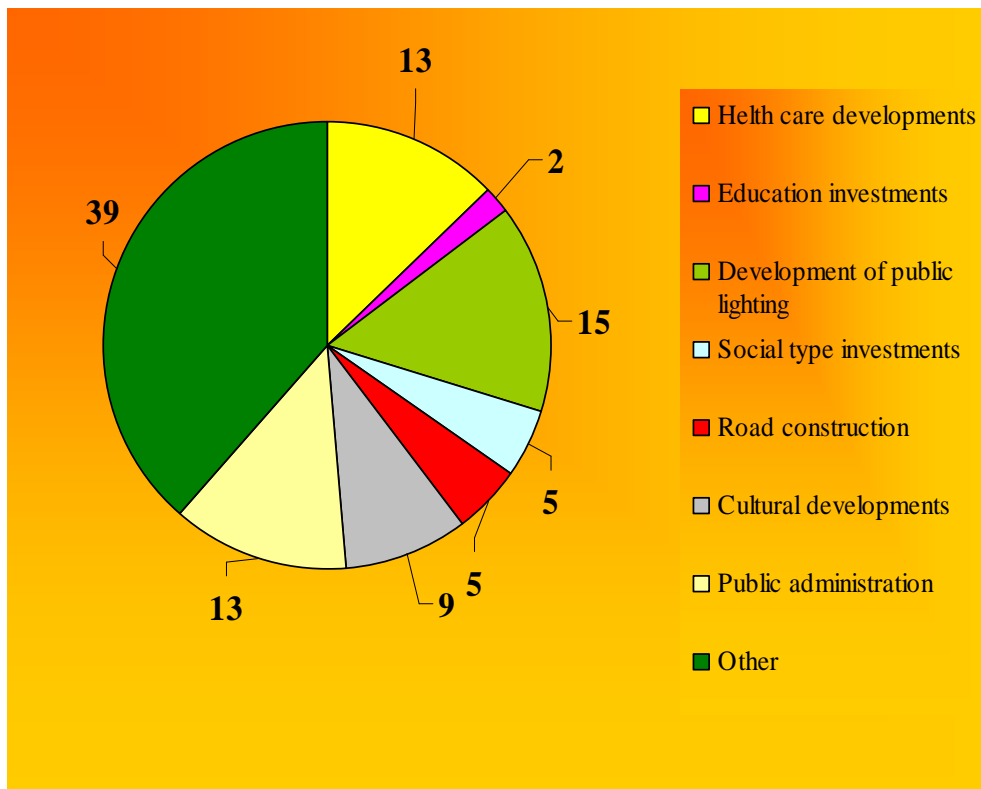


Figure 15. Objective type decentralised funds in Hajdú-Bihar county 1998-2002
(%, calculated at prices of 1996)

7. SUMMARY

In my Ph.D. dissertation, I have introduced the objectives of European Union and Hungarian regional policy and I have evaluated the regional peculiarities of our country. I examined and evaluated the regional disparities of the North Great Plain, the reasons of underdevelopment, I made suggestions for the development of the region and increasing the efficiency of funds.

Our accession to the European Union is the result of along, historical process. On May 1st, 2004 Hungary became a full member state of the European Union with other states. An important endeavor of EU regional policy is reducing disparities. The objective is to eliminate underdevelopment of regions through ensuring solidarity, fairness and justice.

After long debates, Agenda 2000 preserved the Cohesion Fund unchanged for the financial period of 2000-2006. The fund was originally established for the preparation of the monetary union for states where the GNP is below 90% of the community's average to support environmental protection, transportation and infrastructural investments.

Agenda 2000 also regulates the threshold limits of ratios for community co-financing for structural and cohesion funds. On the basis of this, the maximum community funding ratio from 2000 in a given project is 75% of total costs (in the case of Cohesion Fund beneficiaries it is 80-85%) in objective no. 1, and maximum 50% in objectives no. 2 and 3. The community support provided by Cohesion Fund, similarly the previous period, remained 80-85%.

In order to limit community funds per member state, a new regulation was passed that limited the annual income from structural funds to 4% of the GDP in the affected state.

Altogether, it has to be emphasised that probably the biggest achievements of Agenda 2000 were the decisions regarding the reforms of structural and cohesion policy, since these were not simply aimed at making the utilisation of community funds more efficient based on previous experiences but they provide opportunities for expansion by not preserving the available funds of current member states.

Pre-Accession Funds – community fundings for candidate countries, aimed at supporting preparation for the accession: Phare, ISPA and SAPARD.

The Phare programme is the initiative of the European Union, in which the EU provides financial support for the development central and eastern European partner countries, so that they can undertake obligations attached to accession and membership.

For Hungary so far, supports have been concentrated on the following main areas: economy, infrastructure, human resources, environmental protection, developments with public compatibility, cross-border cooperation, 'multi-country'-, and horizontal programmes.

The task of ISPA is the preparation of pre-accession countries to accept Structural Funds. It provides assistance in the fields of infrastructure and environmental protection to solve specific problems delaying accession. Sustainability is an emphasised area in project selection and they have to fit into relevant environmental protection and transportation strategies.

The task of SAPARD is the development of agriculture and rural areas. Its funds are essentially serving preparation for common agricultural policy in the pre-accession period in candidate countries. The programme is for the 2000–2006 period. Hungary can expect

an annual 38 million Euros. Candidate countries have to prepare an agricultural and rural development programme, which outlines eligible actions based on one or two strategically important priorities. The projects that are in accordance with the national SAPARD are selected for funding.

There is an annual budget of 3 billion 120 million Euros in EU budget for financing Pre-Accession Funds in the budget of the EU for 2005 and 2006, 17% of which is for the objectives of SAPARD, 33% for ISPA and 50% for PHARE objectives.

An important change that occurred in regional funding policy was the reduction of target areas and objectives in structural funds from six to three since 2000. These are the following: objective 1: aimed at supporting underdeveloped regions, where the GDP is below 75 percent of the community average, objective 2: assists the economic and social transformation of regions struggling with structural change (decaying agriculture, fishery etc.), objective 3: supports the establishment and modernisation of education, training and employment systems.

The proof of EU trust in the Hungarian regional system, irrespectively of federal or unitarian developments, is that accessible funds were 1.030 billion Euro for 2004, 1.180 billion for 2005 and 1.464 billion for 2006. Hungary is treated as a single region by the EU for this transitional period.

Hungary accepted the implementation of economic and social cohesion policy and the utilization of funds according to EU regulations. The EU appraised the preparation of the National Development Plan, social discussions and the fact that Hungary had a brief but focused and transparent programme from the accession to 2006. The single national regional operative programme also had a favourable reception as Hungary, after considering the EU proposal, decided to implement regional development tasks through this programme. The success of the regional programme will also determine whether Hungarian regions can submit individual operative programmes in the new financial period starting in 2006. The favourable opinion was reinforced by the fact that Hungary had an established regional-statistical (NUTS) system. According to the joint decision, all Hungarian regions are classified into support category 1 (underdeveloped) until the end of 2006. Hungary, on the basis of development and other indicators, can expect 12.2 percent of the structural funds allocated for the ten accessing countries between 2004 and 2006, and 13 percent from the Cohesion Fund. Hungary will be able to access 690 billion HUF of new development funds, which makes up about 1.2 percent of the gross annual domestic product.

In the past ten years the *PHARE*-, *ISPA*- and *SAPARD*-programmes provided 2 billion euros (490 billion HUF) to Hungary and only ten percent of these were spent on regional development programmes. The accession treaty guarantees the payment of funds until the end of 2006. In 2007, Hungary will participate as a full member in defining the objectives for the seven year financial period. The country can receive more significant funds in the new period.

The opportunities of newly accessing countries are likely to improve even further since the future of structural policy after 2006 is still forming, while the European Commission can count on the opinions and recommendations of new member states.

Beneficiary regions, distribution among regions and applicable funding rates are determined for a seven year period ahead within the framework of EU regional funding policy and development programming. The new financial period starts at 1 January, 2007, but newly accessing states can receive funds prior to this, in fact they can benefit from the so-called pre-accession funds (PHARE, ISPA, SAPARD) that will „run out” by the end of 2006. The seven year cycle is highly important from a planning aspect, since the affected regions can calculate with the entitlement and funding rate well ahead and, therefore development plans and concepts can be worked out and implemented with relative certainty.

The efficient utilization of funds, according to strict community regulations and the requirements of sustainable development, will greatly reduce environmental impacts, positively affecting environmental conditions and indirectly improving living conditions of habitants.

Considering the inner conditions of the North Great Plain, almost half of the region's population lives in stagnating or underdeveloped areas, where unemployment and income conditions are worse than average and activity of foreign capital and entrepreneurs is very low. Again, the agricultural feature of the region, location at country and county borders and lack of a dominant centre can explain these. The typical settlement structure of the Great Plain is mixed with small village structure. Large settlements with a large number of population are typical mainly in the central and northern part of the region, however in the eastern, border parts of the region a small village type settlement structure dominates. Its population is reducing at lower rate than the national average, the ratio of live-births is the highest in the nation.

As the economy of the region is relatively underdeveloped, only 32.7% of the total population is employed which is the lowest ratio among the regions. The income per capita is also the lowest here. Entrepreneurial willingness is low and the cooperation among companies is not satisfactory either. Market, production, financing and supply relationships are weak.

Compared to other regions of the country, this agricultural region plays an important role in national agriculture, providing a third of the domestic fruit production and half of the apple production. The ratio of enterprises is still below the national average but the development of business services corresponds with the Hungarian average. The university and college institutions, offering high level training, are also important. The IT higher education and R+D can be a break-out point of the region. An existing problem is that education (both secondary and higher education) has not yet adapted to changing market demands. After the Central Hungarian region, the North Great Plain region has the most significant R+D institutional network, which is an important basis for higher education institutes. A serious problem is that relationship of R+D and the economy is still not sufficient.

The most severe environmental problems of the region are the deficiencies in waste water and waste management, along with the decaying soil quality in the form of salination. Floodwaters and excess waters have been causing severe damages in expansive areas of the North Great Plain.

The economic structure of the region shows a few peculiar features. Industry contributes the GDP to the greatest extent, this followed by agriculture with its 11.2% contribution to GDP which is twice as much as the national average. Agriculture is the most dominant in rural areas, while industrial production is concentrated in the larger cities. Agriculture has a strong tradition in the region; the conditions of agricultural production and processing are outstanding (there are a number of high quality agricultural products).

The ratio of unemployment (16,3%) is significantly above the national average. (9,6%). In Szabolcs-Szatmár-Bereg county this number reached 19,4% and in some small regions this number is far beyond the national average. In Szabolcs-Szatmár-Bereg county one out of ten unemployed is starting his or her career.

The problem of long term unemployment is more significant in the North Great Plain region than in other regions of Hungary, it is a serious problem in Szabolcs-Szatmár-Bereg county, since this county is in a peripheral position.

The infrastructure of the North Great Plain region is far below the national average. The public sewage system has only reached 25% of its needed size and, as a result, sewage water endangers ground and surface waters. The establishment of waste water management facilities and regional waste management facilities is a target of regional development programs. The most important environmental water management problems of the North Great Plain region are caused by the floods of the Tisza and its tributaries. The water quality of the Tisza is greatly influenced by industrial pollution, originating from other countries. An important task is to establish an integrated monitoring system.

The population retaining role of agriculture in the North Great Plain region is more significant and this function, considering EU tendencies, can strengthen gradually. Significant increase in agricultural employment cannot be expected. The development of the needs of the knowledge and labor segments depend on external resources and the self-organization of employees in agriculture.

The North Great Plain region of Hungary is a significant processing and raw material base, with highly developed food processing capacities and high quality of agricultural products.

The agriculture of the region represents about 11% of the total GDP of the region, while 11.5% of active laborers work in the sector. The gold crown value in the region, along with forests and game management GDP, is somewhat higher, than the national average.

The most important natural resource of the region is soil. The most favourable being loess of Szolnok and Hajdúság and chernozem in the Jászság. Different sandy soils dominate the Nyírség, with scattered forest, meadow and moorish soils. The Hortobágy is characterised by saline soils. The climate has extremes, with frequent drought and excess water.

At the general census of 2000, farmers were using about 1 million 250 thousand hectares of land. 95% of this growing area, which is 18% of the national average. 55% of the growing area is cultivated by private farms. The average size of growing area is 5.5 hectares, economic organisations have 591 hectares and private farms 2.9 hectares.

The area occupied by the most important arable land crops (wheat, maize, sunflower, potato, vegetables) is dominantly (59-88%) cultivated by private farms. The role large agricultural enterprises is only more significant in the case of sugarbeet (56%) and lucerne (58%). 37% of vegetable, 35% of sugarbeet and 29% of total potato growing area can be found in the region. There are 220 thousand private farms in the region, 23% of the

national total. The 1550 economic organisations make up 18% of the total. A third of the private farms are very small, cultivating less than a hectare. The ratio of farmers cultivating 1-10 hectares is 27% and only 6% occupy larger land. Less than a third of economic organisations cultivate maximum 50 hectares, 34% 50.1-500 hectares. 31% of them owns land larger than this.

The region's agriculture produced 115 billion gross added value in 2001, a fifth of the national product. The role of the sector is decreasing. Lack of capital is typical in agriculture. Only 2% of foreign interest enterprises operate in this sector and only 25 of their investments are directed here. Problems include; uneven regional development; high ratio of underdeveloped settlements is a serious problem, low capacity public road network compared to the traffic. Some of the settlements are difficult to access, the standard of investments is constantly lower than the national average. Relatively few workplaces are created; unemployment ratios are unfavourable.

When evaluating the condition of agriculture in Hungary it can be detected that the EU preparedness and preparation of individuals with an interest in agriculture is below the possible standard. Deficiencies are displayed in non-existing institutions, infrastructure (storages, cold storages, transportation systems), the low technical standard and in the form of inefficient plantation. The cooperation and coordination of farmers started late and slow. The fact that the increase in income supports does not cover the increase in production costs creates a difficult situation. Stabilising cost of labour, services and land lease fees will take a few more years. As a result incomes adjusted with input price change (deflated) will decrease by 2.8% according to expectations. We cannot be satisfied with the exploitation of Hungarian agro-ecologic conditions, with the integration into international division of labour. With current market and economic conditions the entire agricultural area can be utilised. Naturally considering differentiated technologies, more intensive farming and different environmentally sound forms as well.

The effects of EU accession became visible in the preparation phase. The loss of private and joint enterprises that were not competitive accelerated. Just in the period between 2000-2003, animal husbandry lost 10% of its production value. 4-5% of dairy producers, 11-12% of poultry producers and 23-25% of hog producers were forced to cease operation. The number of private farms below 10 hectares in Hungary over the three years between 2000-2003 decreased by 210 thousand, the number farms with a size between 10-300 hectares remained unchanged, while the number of the largest farms decreased from 1800 to 1700. Land use concentration increased. According to expectations, farms with an area less than 1 hectare will decrease by another 30-35% in the next 5-10 years, the ones between 1-10 hectares will decrease by 20-25%. Currently, almost 1.4 million people are active in some sort of agricultural work. Only 12% of them are dealing with regular production.

The agricultural-rural development programmes (forestation, agricultural-environmental protection, support for areas with unfavourable condition, early retirement etc.) can contribute to increasing the potency of areas to provide livelihood and can increase incomes. If the EU and domestic budget will provide resources to the wide-spread application of Natura 2000 or compensates economic damages due to restrictions then micro-economic indicators can naturally modify.

In conclusion it can be said that the process of regionalisation is slowly progressing in Hungary today. The regional institutional background is young, institutional experiences are limited. Hungarian regional development agencies are operating with few employees with a budget that is the fraction of organisations that are active in similar size EU regions. There is no division of labour among regional development agencies and county development agencies. Due to the lack of these, objectives of regional strategies cannot be coordinated and the application of development policy cannot be achieved.

The funds of EU Pre-accession Funds have contributed to the development of the North Great Plain region in the past five-six years as the new instruments of regional development policy. The Phare programmes had a great role changing the view of individuals active in regional development as well as promoting regional cooperation and receiving EU structural funds. Prior to the May 1st, 2004 accession of Hungary, the North Great Plain region received 24-25% of direct regional development funds, and in the case of the TFC, TEKI and CÉDE it exceeded the national average. From the sectoral development funds, the North Great Plain region received funds above the national average, including the Employment Fund and Touristic Directive. Applicants from the North Great Plain region received little in environmental protection, water management and road development funds. Nationally 200 proposals were submitted for the SAPARD programme, 32 of which came from the North Great Plain region. The efforts made by people in the North Great Plain region is expressed in the large number of submitted proposals and the significant amount of own contribution. However, the GDP of the North Great Plain region did not increase and unemployment rates do not reflect sufficiently the positive effects of funds. The Regional Development Directive provided funds for the development of many small and medium sized enterprises, but the effect of these has not increased economic development yet.

The biggest difficulty is the small number of dedicated professionals, trained in regional development, and advantages of European Union accession can only be exploited if well trained professional groups are formed at local, county, regional and national level as well. This why professionals with an extensive knowledge about the European Union and EU funds and most importantly about Structural and Cohesion Funds are needed to establish the institutional background for the professional management of EU funds and to prepare the required professional documents while assisting in the preparation of development projects and building cooperation with EU organisations. Sufficient share from European Union funds can only be accessed if the country, the specific regions and counties along with small regions can achieve fast results in the above mentioned areas.

8. NEW SCIENTIFIC RESULTS

- 8.1. I conclude that regional differences in Hungary have not changed fundamentally in the past 15 years. When evaluating economic development, public incomes and unemployment we find that the west-east division is still significant. Development is still the most important priority in regional development plans and programmes.
- 8.2. When evaluating the situation of the North Great Plain, I have found that the region is stagnating from an economic point of view. Its land use conditions are excellent. Plant production results, especially in the case of wheat and maize, are outstanding. The region provides a third of the country's fruit production and half of its apple production. The population retaining capacity of agriculture exceeds the national average. The GDP per gold crown value is higher than the national average. The share of agriculture from total GDP is 11%.
- 8.3. On the basis of statistical sequences I have found that the share of Hungarian agricultural production from gross domestic product is low and fluctuates annually (3.6-4.4%). At the same time, its impact in national economy and society is a lot more significant.
- 8.4. Based on the evaluation of the past five years I have found that the funding of agriculture increased by 59%, the consumer price index for the same period increased 45%, so the real value of funds have increased, its rate compared to agricultural production is medium (15%). Fund increase from the Hungarian budget in 2005 is very modest, only 4.4 billion HUF. EU sources are significantly increasing by about 33 billion HUF.
- 8.5. When evaluating the whole of agriculture I have found that it is still characterised by low technical standard, a large number of small farms are not competitive, yield fluctuation is extreme, its foreign trade position is weak. The solution can only be the support of competitiveness.
- 8.6. When evaluating the assistance system of Hajdú-Bihar county, I have found that the ratio of health care, social and cultural investments is lower than average. Funds for road construction and public lighting were significant. It can be concluded that funds awarded in the past five years were in accordance with objectives defined in the development plans.

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APPENDICES

1. Major milestones and events in the history of the EU

European Union: *the new organisational frame of European integration* which, in the spirit of the *Maastricht Treaty* (1992), rests on three „pillars”. These are: the European Community, the Common Foreign and Security Policy (CFSP), and the Justice and Home Affairs (JHA).

Pan-European Movement: *the movement aimed propagating the Pan-European concept. Founded by the Austrian Count Coudenhove-Kalergi in 1922, who was also responsible for resurrecting it following the Second World War. The current leader of the movement is Otto von Habsburg, a member of the European Parliament.*

Marshall Plan or European Recovery Program: *the aid program named after George C. Marshall Unites States Secretary of State, aimed at reconstructing Western Europe after the II. World War. The Soviet Union refused participation, and due to its pressure the former socialist countries were also absent from the program.*

Council of Europe: *intergovernmental organisation established in 1949, mainly dealing with European political, human rights issues. It is based in Strasbourg. (Not to be confused with the European Council, which is a board of the EC)*

Council of Europe Parliamentary Assembly: *the General Assembly of the Council of Europe - the supreme organisation of the Council of Europe. Not an institution of the European Union, not to be confused with the European Parliament. Its members are the national parliamentary delegates of member states.*

Treaties: *founding treaties of the European Coal and Steel Community (1952), the European Economic Community (1958), the European Atomic Energy Community (1958) and of the European Union (1993). From the aspect of EU establishment the EEC treaty was decisive, which is the most comprehensive document of European integration signed in Rome by Belgium, France, the Netherlands, Luxembourg, Germany and Italy on 25th March, 1957.*

The founding treaties are also called basic treaties, which is somewhat inaccurate. Together with the modifications they form the primary legislation of the EU. The modifications are the following: the Merger Treaty (1967), budget treaties (1970, 1975), Single European Act (1987), Treaty of Amsterdam (1999) and the accession treaties of new members (1973, 1981, 1986, 1995). The years mark the time of entering into force.

Treaties of Rome (1958): *treaties setting the European Economic Community and the European Atomic Energy Community, which were signed on 25th March, 1957. and entered into force on 1st January, 1958. The treaty establishing the EEC is by far more important. The European Economic Community (EEC) is an organisation that has been active since 1st January, 1958., which aims to contribute to the improvement of living standards and welfare as well as to the unification of Europe through promoting the interlocking of member states. The most important objectives of European integration were defined in the introductory section of the document (e.g.: the integration of*

European peoples, the economic and social development of countries, increasing employment, improving welfare, preserving peace and freedom).

Treaty of Amsterdam (1999): The last modification of the Treaties signed on 2nd October, 1997, that entered into force on 1st May, 1999. *Its most important provisions:* transformation of joint foreign and security policy system, as well as the home affairs and justice cooperation, incorporating the *acquis* of Schengen into the body of community laws, elevating employment policy to a community level and making the joint decision-making method comprehensive in the legislative process.

European Defence Community: the plan of establishing an integrated European army in 1954. The French National Assembly rejected the plan of *French Prime Minister René Pléven*, fearing the rearming of Germany. Instead, the Western European Union comes into being.

Western European Union: an organisation established in 1954, which primarily aimed to promote the joint defence as well as the economic, political and cultural cooperation of member states. *Founding members:* the Benelux states, France, Great Britain, Federal Republic of Germany and Italy; Portugal and Spain joined in 1989. The organisation has been „resting” in the background for decades in the shadow of NATO and the European Economic Community and only started reviving in the beginning of the 1990s, since according to plans the security policy of the EU will be based on it.

Merger Treaty: also called the Unification Treaty (1965) that came into effect in 1967. It merges *Councils* and *Commissions* of the *European Economic Community*, the *European Coal and Steel Community* and the *European Atomic Energy Community*. (The European Parliament and the European Court of Justice has been a common institution for all three communities since its establishment.) *The Merger Treaty is one of the primary legal sources of the EU.*

OECD: *Organisation for Economic Cooperation and Development*, it has been operating since 1961, it is the successor of the Organisation for European Economic Cooperation which was established in 1948. It is economic policy forum of the developed countries. Hungary has been a member since 1996.

European Conference: consultation forum established on 12th March, 1998. It was established by the EU for the candidate countries (the ten central- and eastern European member states) Cyprus and Turkey. Once a year a meeting of Prime Ministers and an annual meeting of foreign ministers is held to coordinate security, justice, foreign and domestic affairs. As a matter of fact, the forum was established to compensate Turkey, since the European Council did not react positively to the Commission's request regarding Turkey's accession even after more than 30 years, in December 1997. However, the Turkish government did not wish to participate in the conference thereafter.

Accession Partnership: the documents of Accession Partnership about candidate countries were developed by the European Commission on the basis of the country reports and were revealed to the candidates in the spring of 1998. Individual and customised programs were developed for all candidate countries, with technical and financial resources ensured by the EU. The short- and medium-term priorities necessary for adopting the *acquis* were determined in the Accession Partnership. As a response, the candidates had to create the National Programme for the Adoption of the *Acquis*. The adoption of the *acquis* (except for an area receiving a delegation) had to be completed until the accession.

Southern expansion: the enlargement of the European Community to the south, during which Greece (1981), Spain and Portugal (1986) became the members of Community.

Europe Agreements: association agreements made with central- and eastern European countries. Their distinctive peculiarity from traditional association treaties is that the *future accession of associated countries is included as an objective*. The breaking down of various barriers limiting the trading of goods is generally set for a period of 10 years. (This was shortened later on.) An *important peculiarity* of the European Agreements is *asymmetry*, which in this case means that the EU first breaks down the obstructions to central- and eastern European exports, which is later requited by the latter. European Agreements have been made with the following countries: Czechoslovakia, Poland, Hungary (1991), Bulgaria and Romania (1993), Estonia, Latvia, Lithuania, Slovenia (1995).

Single European Act: the document that substantially further developed the previous treaties of the EC. The document itself is one of the *primary legislative sources of the EC*. It was signed in 1986 and came into effect on the 1st June, 1987. The attributive „single” refers to the fact that it regulates both the EC and the European political cooperations since 1986.

Petersberg declaration: the joint declaration regarding the future of the Western European Union (1992). The WEU has to become the European pillar of the NATO and the defence dimension of the EU. According to the declaration, the units of WEU member states can be deployed for humanitarian and peace keeping tasks.

Maastricht Treaty: the popular name of the treaty establishing the European Union. It was signed on 7th February, 1992, in the town of Maastricht, in the southern part of the Netherlands. It came into effect following the ratification in the member states, on 1st November, 1993.

Schengen Treaties: representatives of the Benelux states, France and the Federal Republic of Germany agreed in the town of Schengen, in Luxembourg to *gradually eliminate controls at shared borders*. Later, all EC member states joined except for Denmark, Ireland and Great Britain. The original deadline was supposed to be the beginning of 1990, but this was modified many times and it finally came into effect in May, 1995. The Schengen Treaty is naturally accompanied by the condition that the signing countries (in a popular somewhat funny definition: Schengenland) need to

apply very strict control at the outer borders. (Since Hungary has such a border, the consequences also affect us.)

Schengen Information System: SIS – *computerised information system*, which was *designed to support the action against cross-border crime*. Without its effective operation, the realization of the Schengen Treaties would not have been possible.

2. *A few more important milestones*

- 1985: Agreement on drawing up the Single European Act, Schengen agreement on the elimination of border controls among member states.
- 1991: the European Council reaches an agreement on the draft Treaty on the European Union in Maastricht, the Netherlands.
- 1991: the EU signs accession agreements with Czechoslovakia, Poland and Hungary.
- 1993: as part of executing the Single European Act a unified market, along with the free flow of capital, workforce, goods and services enters into force. This is the realization of the so-called *four fundamental freedoms*, out of which the free flow of workforce has not been realized yet.
- 1995: the Brussels Commission accepts the directives for the accession of central- and eastern European countries and adopts the White Paper containing the preparation program.
- 1995: the European Council accepts „Euro” as the name of the new, single currency.
- 1997: decision is reached at the Luxembourg summit, that in addition to Cyprus five eastern-European states (Hungary, the Czech Republic, Poland, Estonia and Slovenia) are going to be invited to join accession negotiations.
- 2002: the number of countries awaiting accession increases to ten, the date marked for signing the Accession Treaties is 1st May, 2004.
- 2003: The Accession Treaty has been signed by the Prime Minister on behalf of the government in Athens on 16th April.
- 2004: Hungary joined the EU on 1st May.

3. *Brief summary of EU institutions*

European Parliament: made up of representatives from EU member states, more of a legislative than an actual parliament. Its remit is gradually expanding. Its members have been directly elected by the citizens of member states since 1979. Plenary sessions take place at Strasbourg but also has regular meetings at Brussels.

Assembly: the common representative body of the ECSC between 1952 – 1962, also for Euratom and EEC between 1958 – 1962. Since 1962 it has been called European Parliament.

European Council: the body of Prime Ministers from EU member states with at least two annual meetings. The European Council does not possess formal legitimacy, it is still the decisive body in the most important strategic issues regarding the integration.

European Commission: the most important organisation with actual „executive power“. The word *Commission* marks both the governing body with the current 20 members, as well as its enormous administrative staff.

The Council of Ministers: *the most powerful law- and decision-making body of the European Union.* Its composition varies: general issues are discussed by the so-called *General Affairs Council* which is composed of Foreign Ministers, while in special issues (e.g.: agriculture, transportation) a Council of competent ministers decides. In especially important issues the foreign ministers and the concerned competent ministers all participate in the work of the Council. (This is called the *Jumbo Council*).

European Regional Development Fund: created in 1975, designed for the realization of the EU's regional policy.

European Bank for Reconstruction and Development (EBRD): *was set up in 1990 with a callable capital of 10 billion ECUs, with a headquarters in London,* mandated to assist the transition to free markets of the former communist countries of central and eastern Europe. The European Bank for Reconstruction and Development provides credit to the private sector, outsources capital and supports infrastructural developments. It is a non-EU institution; the EU has only a 51% share.

European Social Fund: was set up in 1960 and it is the most important tool of the EU's social policy. The fund is designed for supporting vocational training, retraining and to create workplaces. A portion of the fund is used for reducing long-term and youth unemployment. The sources of the fund were significantly increased after 1992 (Delors-II. package), with an objective to promote the improved operation of labour markets as well as assisting re-employment of the unemployed. New objectives include the strengthening of equal opportunities, assisting the adaptation of workers affected by industrial restructuring and supporting the development of new production systems.

Economic and Social Committee: the discussion forum for representatives of employees and employers in the EU. Its members are appointed for a four year term. Its main task is to provide institutional representation for economic and social groups.

4. EU – lingo – encyclopedia of the most important EU terms

acquis communautaire: the entire body of laws, policies and practices which have at any given time evolved in the EU. As a broader term it also includes the whole order of procedures practiced by the EU. New members states – following a transitional period - have to take on and apply these measures.

four freedoms: provides the essence of the common market. These are: the free movement of goods, persons, services and capital among member states. Since the freedoms included in the Treaty of Rome were not achieved over the course thirty years, the Commission developed a proposal to create a unified, internal market. The objectives regarding three freedoms were realized by the deadline set out earlier (31st December, 1992), but the free movement of persons, primarily due to security reasons, has not been achieved yet.

Treaty of Amsterdam (1999): The last modification of the Treaties signed on 2nd October, 1997, that entered into force on 1st May, 1999. *Its most important provisions:* transformation of joint foreign and security policy system, as well as the home affairs and justice cooperation, incorporating the *acquis* of Schengen into the body of community laws, elevating employment policy to a community level and making the joint decision-making method comprehensive in the legislative process.

commissioners: (commissionaire in french) members of the European Commission.

CAP: Common Agricultural Policy

Delors-plan: the three phase plan (1989) of establishing the European Monetary Union (EMU). The first phase that liberalized the movement of capital and defined closer coordination in these areas for the future was launched on the 1st July, 1990. The main task of the second phase (1st January, 1994. – 1st January, 1999.) was to establish the Central European Bank. The third phase included the establishment of the actual economic and monetary Union, with a precondition to fix the currency exchange rates of member states.

derogation: exemption; a temporary or permanent exemption from fulfilling such obligations that other member states approve.

EBRD: European Bank for Reconstruction and Development (1990).

Single European Act: the document that substantially further developed the previous treaties of the EC. The document itself is one of the *primary legislative sources of the EC*. It was signed in 1986 and came into effect on the 1st June, 1987. The attributive „single” refers to the fact that it regulates both the EC and the European political cooperations since 1986.

European Monetary System (EMS): the monetary cooperation system of EU member states. It was established in 1979. Its main objective is to minimize the fluctuation of exchange rates. Its important components are the European Currency Unit (ECU), the Exchange Rate Mechanism (ERM) and the monetary funds supporting its operation.

Social Charter: European Charter of Social Rights - the declaration of the Council of Europe accepted in 1989. Joining states accept to guarantee rights for workers, women, the handicapped, the elderly and children. The further developed version of the Charter is the Social Chapter, which was only signed by the UK in 1997 – thus it was finally integrated into the *acquis*.

export subsidy: the export of agricultural products to countries outside the Community is promoted through export subsidies. It is aimed to compensate differences between higher domestic and lower foreign prices. Its extent is determined by the difference between the two prices. The export subsidy complements the income of farmers and supports the decrease of the EU's large quantity of agricultural surplus.

White Paper: method adopted from the British law-making practice: documents containing comprehensive proposals for handling a specific issue, which serves as directive for future legislation.

sustainable development: the report entitled „Our Common Future” – the Brundtland report mentions the term *sustainable development*, which connects environmental protection, social and economic problems. According to the Brundtland report (named after the Norwegian Prime Minister Gro Harlem Brundtland) „*sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs*”.

federalism: the principle according to which the member states in a confederation do not give up all their jurisdiction. An advocate of federalism is the Federal Republic of Germany, which had a structure based on federalism.

Organisation for Economic Co-operation and Development: OECD

border control: in the framework of the common or internal market, border controls ceased in the transport of goods within the Community, by 1st January, 1993. With the development of the Schengen Information System it was also applied to public transport.

integration: the process during which national economies integrate, differences gradually vanish, economic (and later other) connections converge to characteristics typical of domestic conditions.

INTERREG: one of the initiatives by the EU, which in particular is the most important from the aspect Hungary, fostering cross-border, interregional cooperation. Its primary objective is to promote infrastructural developments, cooperation among public service companies and the cooperation of companies in the field of environmental protection.

harmonization of laws: the principle of harmonization

eastern expansion(s): the upcoming expansion of the European Union with central - and eastern – European countries also including Malta, Cyprus and Turkey. It will probably take place in several phases.

cohesion: the aim of the cohesion policy is to strengthen economic and social cohesion of the Community, in the interest of promoting a harmonious development for the whole of the Community and especially to reduce differences among the various regions and underdeveloped areas. The Cohesion Fund was created for this purpose.

Cohesion Fund (1993): the fund established by the Treaty of Maastricht. Its objective is to support developments in the fields of environmental protection and transeuropean networks. *Only the four poorest member states* (Greece, Ireland, Portugal and Spain) *can receive supports*. Resources for 2000 and 2006 period make up 18 billion Euro.

Common Agricultural Policy: the subsidy system of agriculture was gradually transferred to the authority and finance of the Community by 1967. Its essence is subsidized export and a community agricultural market protected by customs tariffs. The system motivated farmers for overproduction, thus it went through several reforms during the second half of the eighties. The CAP reform is ongoing even in during the 2000 – 2006 fiscal period.

common market: the phase of integration when there are no obstructions in the flow of goods, services, workforce and capital among member states.

Treaty of Maastricht: the popular name of the treaty establishing the European Union. It was signed on 7th February, 1992, in the town of Maastricht, in the southern part of the Netherlands. It came into effect following the ratification in the member states, on 1st November, 1993.

net contributor: the countries that contribute more to the common budget than what they receive back. The biggest net contributor is traditionally Germany, followed by Italy, Great Britain, the Netherlands and France.

NUTS: Nomenclature of Territorial Statistical Units. The NUTS classification is the following (the Hungarian equivalents have been finalised yet):

NUTS 0 – member state, regardless of size (so Germany and Luxembourg are both NUTS 0)

NUTS I – province-, or region clusters, excluding Germany, where this is province level

NUTS II – province level, or regions (in Hungary this was about 7 planned statistical regions in 1998)

NUTS III – county

NUTS IV – about district level (in Hungary this was 150 statistical districts in 1998)

regional policy: one of the most important common policies of the EU which is aimed at reducing differences among regions. The Structural Funds are important tools of the regional policy.

structural funds: important tools of the regional policy, since regional policy is one of the most important common policies of the EU, aimed at reducing differences among regions.

Antecedent: joint term used for the European Regional Development Fund in 1975 + *European Social Fund* (vocational training, retraining, supporting the creation of workplaces), the orientation „section” of the *European Agricultural Guidance and Guarantee Fund* (motivates the rationalization, modernisation and structural changes in agriculture), the *Regional Development Fund*, the *Financial Instrument for Fisheries Guidance*. *Jointly: Structural Funds*. The Cohesion Fund is not included in this classification.

subsidiarity: according to the principle of subsidiarity, decisions have to be made at the lowest possible level, where information is optimal, responsibilities associated with the decision and consequences are the most transparent and easier to enforce. Therefore, only those authorities are transferred to the Community that can be practiced more efficiently at a community level than at the level of member states or regions.

co-financing: most community support forms require the addition some own contribution on behalf of the supported organisation, institution or member state. This varies from ten to even ninety percent.

Werner report: the first plan of the European Economic and Financial Union. The plan, which was accepted in 1970, which was to rely on the convertability of EC member state currencies, freedom of capital flow and gradual ceasing of currency instability. World economic developments in the first half of the 1970s have made it impossible to realize. It is still a very important element of developing the integration, since the „revised” version of this became the foundation of the economic and monetary Union.