

## **Rural Development and Pre-accession Preparation in Hungary**

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### *Is there an alternative way?*

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#### **Abstract**

*This paper intends to explore current trends of rural development and rural policies by the light of the approaching EU accession; and tries to give some concrete recommendations to Hungarian policy makers. We state that, the EU policies communicate rather contradictory messages, urging for centralisation (institutional, legislative) and continued subsidies for industrial agriculture on the one hand; and supporting decentralisation and an integrated rural development approach on the other. As a result of EU influence and domestic forces, in Hungary local and central sub-systems for rural development are emerging in parallel. We believe that the main cause for the failure of current and future rural policies is that the local system is not supported sufficiently and there is no adequate co-operation between the local and the central level of rural development in general. As a result, central resources cannot be efficiently delivered and local development potential cannot be unlocked. We suggest that, policy makers should take a much more integrated, diversified and multi-sectoral approach to rural development, using available domestic and EU resources in order to change the course of current rural policy practice. The diversification of the rural economy, improvement of locally added value; the development of short food chains; together with possibilities for the support of environmentally sensitive agricultural production would allow for the unlocking of our full rural development potential. On this way Hungarian rurality, from being a lagging follower of EU rural regions, could become a champion of the integrated rural development approach.*

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## **Introduction**

Rural areas and rural people in general have been the main losers of economic and political changes of the '90s in most Central and Eastern European (CEE) regions. The collapse of the rural economy resulted in social and environmental degradation of many rural areas. The rapidly approaching eastern enlargement of the European Union (EU) is most likely to further aggravate these problems. Europeanisation, naturally, exposes peripheries to growing global competition, in which CEE rural areas have a weak starting position. Domestic and European rural policies are supposed to eliminate or at least to reduce these problems. Nevertheless, according to many analysts and to general experience, current rural policies usually fail to fulfil this role. Reasons for this are manifold: low level of redistribution; a centralised, sectoral, top-down approach with outdated objectives, rules and procedures; exclusion of local resources, initiatives and local participation from the development process in general. All this can result both in the permanent loss of environmental and socio-cultural values of rurality, and severe political and socio-economic tensions within an enlarged Europe. Therefore, the reform of rural policies and rural development in general is crucial for the future of Europe as a whole.

Compared to Western Europe, CEE rural areas are not simply backward, they are different. In general, they have a more traditional society, economy and more natural resources, all advantageous for an integrated, sustainable approach to rural development. This means tackling structural problems and backwardness through top-down spatial and sectoral policies, while unlocking local resources through empowerment and participation. CEE has long been on a different development trajectory, therefore the EU system should not be simply copied here, but alternative approaches and development models should be found. Based on their internal resources and EU assistance, future Member States could become an experimental field and then a driving force for the long wanted fundamental reform of EU rural policies, with special regard to the Common Agricultural Policy (CAP).

Nevertheless, apart from political rhetoric, there is little or no move and real political will into this direction. To fulfil accession requirements and access current and future EU funds, applicant countries have had to centralise their policies and institutional system, to comply with the current outdated EU model. In parallel, however, most accession countries have experienced a burgeoning of 'bottom-up' development activities and some decentralisation in planning and decision making procedures. Reinforced by EU rhetoric (on sustainability, participation and local development) regional and micro-regional structures, NGOs and civil society are gaining more influence and political representation in the CEECs. Centralisation and decentralisation, therefore, are parallel and could well be complementary processes in our rurality. A well working rural development system has to be integrated; needs both, centralisation for strategic planning or to access EU funds, and local structures, to deliver aid or utilise local resources.

Major problems of rural policy making in CEE countries, with special regard to Hungary, is that, they do not clearly recognise possible benefits of an integrated development system; do not pay adequate attention to their endogenous rural resources; and do not realize the alternative root for rural policies, which could suit better their development trajectory than the current EU regime. Neither EU, nor domestic policies provide sufficient support for a sustainable, participatory rural development approach. Co-

operation or at least clear links between central policies and local development initiatives generally have not been established, effective procedures for social dialog and the harmonisation of interests have not been working. Instead, during the pre-accession preparation and the negotiations, the primary (if not the only) objective of CEE governments have been to fulfil the requirements of the agricultural lobbies of their countries, fighting for the highest possible amount of direct agricultural aid from the EU.

These can lead to a number of serious negative consequences in the future, such as:

- the enlarged EU can miss the prevailing chance for fundamental changes and the necessary reform of current policies will be put off to the distant future;
- New Member States (NMS) can miss the chance to take a different way of development and will commit again the long known mistakes arising from productivist agricultural policies;
- as a result of growing competition, diminishing protection, reduced support and ineffective development policies, some CEE rural economic sectors may fail to compete in the common market, causing further social, environmental and economic degradation of rural areas, and a deep disillusionment of rural people;
- all these can result in significant social and political tensions in the enlarged EU.

This paper, through the example of Hungary, tries to analyse the effects of pre-accession preparation on rural policy making and rural development in Central and Eastern Europe. We will explore current trends for centralisation and decentralisation in Hungary, through the multi-level influence of the EU SAPARD<sup>1</sup> programme and domestic development policies. This document, being a policy paper, does not include detailed data and in depth analysis. We rather concentrated on the general argument, the conclusions and the following policy recommendations<sup>2</sup>.

First we provide some background about EU rural development policies, the current trends and their criticisms, with special regard to arrangements and expected influence of the SAPARD programme. Then we focus on the Hungarian situation. After providing some background information, we explore possible scenarios for the Hungarian agricultural sector. Then we examine how Europeanisation effected Hungarian rural policies, and investigate in detail the two formulating rural development sub-systems. Finally we give general and specific recommendations for Hungarian policy makers.

The research, creating the basis of this study, has been ongoing for four years now<sup>3</sup>. The methodology of the research was fundamentally qualitative, using in-depth interviews,

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<sup>1</sup> SAPARD - Special Instrument for the Preparation of Agriculture and Rural Development.

<sup>2</sup> Nevertheless, for those, who are interested in our detailed findings and analysis, two research papers, based on our primary research, are provided in the appendix. The first - **Profit, politics and sustainability - The determinants of rural- and agri-environmental policy-making in Hungary** – gives an overview and analysis of stakeholders, legislation, resources and constraints of rural policy making in Hungary. The second - **Rural Development and Pre-accession Preparation in Hungary - Official and 'side effects' of the SAPARD Programme** – is an in-depth analysis of the SAPARD the joint domestic programmes and their effects on Hungarian rural policies.

<sup>3</sup> The first three years was supported by a Phare ACE scholarship and by the Centre for the Rural Economy of the University of Newcastle upon Tyne. The last year was supported by the International Policy Fellowship programme of the Open Society Institute; and my employer, the Institute of Economics of the

structured conversations and document analysis. In Hungary and in Brussels some 65 interviews were undertaken with government officials, experts and representatives of NGOs and various interest groups. Hungarian and EU legislation, other relevant policy documents and declarations of NGOs and interest groups were analysed. Finally, the findings of the analysis were circulated amongst all interested parties, and several workshops with their participation was organised. These events provided further information and feedback for the research.

## **Rural development in the EU**

EU rural policies are deeply rooted in an interventionist, exogenous model, which is generally characterised by modernisation, as a ruling concept. The basic notion here is that, rural areas are lagging behind urban centres; the main reasons for their backwardness are their physical remoteness, low accessibility, and the traditionalism of their socio-economic and cultural systems. According to this approach, to improve the situation, these areas have to be modernised and connected to dynamic centres and expanding sectors. All this can be achieved through central interventions. The main intervention for EU rural areas has been the CAP. This originates from the food-shortage-time of the post war period, with the overall aim of creating and maintaining a highly intensive agricultural industry. As a result of the policy, the EU soon became one of the largest food exporters. Nevertheless, a large price had to be paid: both the natural environment and socio-cultural structures of European countryside suffered significant, permanent damages.

For the '80s the old productivist model was falling into disrepute, and a new, integrated development philosophy emerged, which is hoped to be appropriate to reach the twofold objectives of cohesion and diversity. This approach is territorial, rather than sectoral, builds on local resources and reinforces the ability of local communities to control their own socio-economic well-being (Commission 1988). This development philosophy is widely referenced and has become the main rhetoric for EU documents and speeches today. The successive reforms of Structural and Cohesion policies, as well as the emergence of new requirements (such as subsidiarity, partnership, programming) in EU policy measures made the first steps on the way of realisation of this philosophy (Commission 1997). If all this is understood as an evolutionary trend or a long-term objective, then the integrated approach can be identified as the future way of making and implementing development policies in the EU. This process is often understood as a shift of the development paradigm from the old top-down style, towards an integrated or neo-endogenous development philosophy (Ray 2001).

However, the fundamental change in rural policies did not occur, and short-term policy goals and implemented measures remained quite different from long-term objectives. Even the last reform of the CAP, under Agenda 2000, is frequently criticised for this (Tangermann, 1999, Lowe et. al. 2000 and 2002, Nemes 2000, Baldock et. al. 2002).

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Affirmed aim of the reform was to transform the CAP (which is traditionally based on production subsidies), into CARPE (Common Agricultural and Rural Policy for Europe), based on the philosophy of integrated rural development. This would have been a significant reform, allowing the EU to prepare for the eastern enlargement and the coming round of the WTO negotiations (World Trade Organisation). Nevertheless, the reform was wrecked once again on the opposition of European agricultural lobby organisations (such as national farmers' unions in the Member States, or the COPA). The so-called Rural Development Regulation (RDR), celebrated as the 'Second Pillar of the CAP', did not bring innovative objectives, real decentralisation or new resources into the European rural development arena. More than 80% of the agricultural budget continues to support the most wealthy, highly intensified, industrial farms. Therefore, there is a growing contradiction within the CAP, between rhetoric, long term objectives and everyday policy practice.

### **Eastern enlargement and rural policies – an analysis of the SAPARD Programme<sup>4</sup>**

The approaching eastern enlargement of the European Union is often seen as the most significant force for the reform of rural policies. However, the above described contradiction also characterizes EU approaches towards the eastern enlargement, pre-accession programmes and future rural policies, to be applied in CEE. After political and economic changes in Central and Eastern Europe, the first reaction of the West was giving political and economic support to the newly established democracies. Although, financial support never really reached a high level, at the beginning bureaucratic control was somewhat looser, and the money was relatively easy to access. With the opening of the accession negotiations, the Commission rearranged the philosophy of the Phare programme to focus on those objectives that have direct importance in the preparation for membership, mainly in the fields of institution building and investment<sup>5</sup>. The new pre-accession programmes, (SAPARD and ISPA) were also designed according to these ideas.

The EU communicates two rather different - one could say contradictory - messages through the pre-accession policies and the accession negotiations. One is centralisation and the other is decentralisation (see diagram 1.).

The EU force for *centralisation* can best be captured through the requirements of the *acquis communautaire* and the conditions of the pre-accession policies. These are most concerned with such principles as transparency and accountability, which are general assumptions of those EU policies traditionally funded by the Guarantee section of the EAGGF. To fulfil these requirements, Candidate Countries had to Europeanise their rural development system, making new legislation and building institutions, principally at the central level. External pressure however, corresponds with *domestic* forces also acting for centralisation. Bureaucratic institutions, especially under instable political circumstances, can also have a strong will for centralisation themselves.

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<sup>4</sup> For a more detailed and comprehensive analysis of SAPARD, please see Appendix 2.

<sup>5</sup> With the words of a EU official: "We used to give money for basically anything. From now on we do not support our future competition for the money of EU taxpayers."

The other message carried by the pre-accession strategy, however, reinforces *decentralisation*. This is communicated by political declarations, the general rhetoric and some examples, such as the LEADER Programme<sup>6</sup>. This message builds on a different selection of EU principles, such as integration, subsidiarity, local participation and sustainability, traditionally more characteristic of the Guidance rather than the Guarantee section of the EAGGF. Some of the requirements (such as partnerships, pre- and post evaluations, programming, etc.) and the EU rhetoric on sustainability and endogenous development (CARP) had significant effects in several CEECs, most notably in Hungary. Positive examples, especially the Leader Programme, also had a great influence.

The SAPARD Programme provides a good example for this duality. The rhetoric of the programme is very similar to the philosophy of the LEADER Programme. The SAPARD Regulation implies a subsidiary and decentralised programme at first sight. As opposed to previous EU aid schemes, it decentralises resources from the EU level to the Candidate Countries, letting them choose from a menu of rural development measures and both design and implement their own programmes. Nevertheless, the implementation of the programme turned out rather differently. Several 'check-points' were built into the system, which allowed the European Commission to keep much of the control. Three of these can be identified: the accreditation of the National SAPARD Plans (has been completed by all applicants more than two years ago); the accreditation of the Paying and Implementing Agencies (not fully realised by any countries); EU monitoring and evaluation of the programmes (still to come for all Candidate Countries).

For the *programming period*, the EU applied the rules and the general approach of the EAGGF Guidance section, however, with considerable restrictions. In Hungary (as well as in some other countries) this period and its consequences brought the most, positive effects for rural areas. Partnerships were created, collective thinking about the future began and a change of perception of rural problems and their possible solutions was initiated at various levels in several CEE Countries. Nevertheless, the whole process was controlled by the Commission, having both positive and negative effects, from the viewpoint of integrated rural development. Strong EU support for agri-environmental and rural development measures and forcing partnership and co-operation upon bureaucratic organisations could be mentioned as main positive effects of EU control. Strong limitations on subsidiarity and decentralisation could be mentioned as negative effects on the other hand. Even though SAPARD was a decentralised programme, subsidiarity ended at the stage of CEE central governments, keeping extremely tight control on lower (regional, local) levels, depriving them from any sort of decision making power concerning the Programme<sup>8</sup>.

The first 'check point' was already difficult to pass. However, the second proved to be even harder. Concerning the building of central institutions and detailed procedures, the general attitude of the Commission changed from the approach of the Guidance to the

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<sup>6</sup> Liaisons Entre Actions de Développement de l'Economie Rurale – an EU rural development programme, based on a sustainable, participatory, bottom-up approach.

<sup>7</sup> European Agricultural Guarantee and Guidance Funds

<sup>8</sup> One could say that the EU simply did not want to pour money into what was thought to be the 'black hole' of CEE rurality. Consequently, on the financial side, tight bureaucratic control and built in safeguards were kept by the Commission to avoid any risk of losing resources.

Guarantee section of EAGGF. Everything grew more bureaucratic; requirements became more detailed and difficult to fulfil. The whole process was less transparent for the Candidate Countries. Since the rules had not been written down beforehand, they could change and be bent according to the wishes of the auditors. With the words of a Hungarian official speaking about the SAPARD Agency: ‘...they [the EU] did not want offices with people working in them. They intended to eliminate human decisions in the process, wanted to have a huge living computer, made up of people, buildings and machines.’ Under SAPARD, CEE countries have to apply the rules of the Guarantee section of the EAGGF (transparency, accountability) in a programme, which is otherwise rooted in the Guidance section (multi-annual programming, partnership, etc.).

To fulfil the requirements of such a mule-like programme caused great difficulties for the Candidate Countries, which none of them has been able to fully overcome so far. Although all countries have accredited their paying agencies, rural development has had to pay a large price. All countries had to reduce their programmes to 3-4 measures, keeping the larger and simpler agricultural measures and missing out most of the rural development ones<sup>9</sup>. The agri-environmental component of SAPARD, for example, is not likely to be implemented in more than 1-2 countries in the near future. This means losing the notion of integration and bringing little or no innovation to the field of rural development. Candidate Countries also have serious problems with implementation, spending the money and reaching members of the rural population other than large agricultural producers and food-processors. More innovative measures, which are more difficult to implement progress even more slowly or have been left out completely. SAPARD had a strong focus on central institutions according to the EU regulation. This emphasis was reinforced during building these institutions and procedures for implementation. As a consequence, a great proportion of the features of the programme, coming from the Guidance section (diversity, programming etc.) was sacrificed in order to fulfil the bureaucratic transparency and accountability requirements of the Guarantee section. Therefore, though many agencies were partly accredited, none of the CEE countries could fulfil the rules completely and pass this ‘check point’ successfully. It is possible that the expectations of the European Commission were unrealistic in this respect.

An important question is: what will be the use of all this. The main product of the programme is most likely to be the SAPARD Paying Agency and other related administrative capacities. The bill for all this had to be paid by the applicant countries: costs of the establishment and running of the SAPARD institutions, amounted to millions of Euros, before receiving a single Cent from the EU budget. However, it will be worth it if it really prepares CEECs for future EU aid. However, there are some doubts even about

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<sup>9</sup> For example Bulgaria, which was first to accredit its agency, had to reduce the number of its measures from twelve to three, keeping ‘investment in agricultural holdings’; ‘marketing and processing industry’; and ‘rural diversification’. Two of these are traditional agricultural measures, complementing or substituting domestic policies, rather than bringing new perspectives into the rural development arena, and the third is almost impossible to implement. On the other hand, according to a Bulgarian official, with the current rules it is almost impossible to reach the small and medium size enterprises (SMEs), under the ‘agricultural investment measure’, for example. During the first eight months of the programme they ran 64 projects under this measure, only four of which concerned SMEs, the rest being large agricultural producers.



this. According to the current proposals most CEE regions will become Objective 1 areas after EU accession. This implies several consequences. Firstly, most EU aid will be delivered by the Structural Funds, instead of the CAP. Secondly, in the current EU system, in Objective 1 areas, most of the Rural Development Regulation is subsidised from the Guidance section anyway. If these rules remain in force, a paying agency, based on Guarantee rules, will not have much task in New Member States (NMS). On the other hand, if rural development will be implemented through Guarantee rules (or the current rules for SAPARD), then it will put further limitations and restrictions on the development of backward rural areas in CEE, even in comparison to less developed areas of the current EU<sup>10</sup>.

In its current form, the SAPARD programme fails to tackle the significant socio-economic problems of rural areas or to maintain cultural and natural diversity. Its main objective and most likely effect is the creation of a strong central bureaucratic institution (the SAPARD Paying Agency), which complies with EU rules and will be able to manage EU funds in the future. It will create access (administrative-legal, physical and economic) for policies, capital and goods expected to arrive from the European Union, to CEE Countries. SAPARD seems to have maintained the objectives, structure and procedures of the current CAP in a top-down, centralised manner, without quality changes of the system. As a result, pre-accession Policies are likely to reduce the shock of the coming eastern enlargement for the current Member States, rather than for the new applicants of the European Union.

## **Rural development in Hungary**

Some important points on the context of rural policy making and European accession in Hungary follow<sup>11</sup>:

Agriculture, rural economy and rural society in general have been the main losers of political and economic restructuring since 1989. Economic and social inequalities have been growing between urban and rural areas, and this tendency is likely to be reinforced by europeanisation. At the same time, Hungary has excellent resources (natural, human, cultural and social) for various types of rural development. In addition, this field is expected to receive significant financial aid after European accession. Therefore, rural development in general, and the preparation for relevant EU policies, is vital for Hungary.

Hungarian rural policy making is outward looking; lacks a well thought out strategy, and is driven by political and budgetary concerns, with special regard to expectations about external resources. The main political influence and most resources are controlled by the Ministry of Agriculture and Rural Development (MARD). The MARD, together with most agricultural producers and other stakeholders mainly supports a traditional

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<sup>10</sup> Rural development measures in Objective 1 areas remained implemented under Guidance rules, because the need for more flexibility, advanced payments and a generally more integrated approach in these areas was recognised by policy makers.

<sup>11</sup> For detailed information on the determinants of rural policy making in Hungary, see the research paper: Profit, politics and sustainability - *The determinants of rural- and agri-environmental policy-making in Hungary* in the Appendix.

‘agricultural restructuring-type’ rural development, which complies with requirements of the *acquis* of the EU. Integrated rural development has its basis in a small unit of MARD, the Rural Development Unit; the countrywide system of local development associations; and various activities of the civil society. Regional development public administration, though institutionally is part of MARD, acts as a separate entity and hardly enters into rural development activities. Environmental interests have a rather weak political and social basis in Hungary. However, there is a good network of environmental NGOs with a large accumulation of technical knowledge and growing political influence. Local authorities and the system of various level development councils should also be considered as important actors for rural development.

### **Hungarian agriculture and EU accession – two scenarios**

As a result of structural changes and economic crisis, Hungarian agriculture has changed significantly, compared to the '80s. The volume of production, the employed workforce and the GDP contribution of agriculture have fallen considerably. At the same time, the way of production has also changed, namely, it has become much more extensive. The amount of artificial fertilisers used today is 23%, and the insecticide is some 32%, compared to the '80s. Large arable land areas have become abandoned, at the same time the number of animals has also dropped significantly. Consequently, the environmental pollution resulted from agriculture has been greatly reduced during the past decade. However, the approaching EU membership, the CAP, the new potential markets and large resources for investment and intensification is likely to bring significant changes again for Hungarian agriculture. Concerning this, an important strategic choice has to be made by Hungarian policy makers, between the reality and the rhetoric of EU policies. In other words, they have to decide if they want to base rural and agricultural policies on the principles of the present Common Agricultural Policy (CAP), or rather on the principles of the Common Agricultural and Rural Policies for Europe (CARPE), which is widely referenced as the possible way out from the rural-agricultural crisis of the EU in the near future. Hungary has good resources for both choices; however, they are likely to bring very different consequences for the rural areas of the country.

The first choice (could be called the ‘CAP scenario’) would involve the significant and large-scale intensification of Hungarian agriculture, built on domestic and EU resources. From this viewpoint the last ten years have been a wasted time; the extensification of production and the structural change of land ownership towards smallholdings is a disaster. This approach suggests the same path for the Hungarian agriculture that has been followed by its French, Danish or Dutch counterparts. This means the reinforcement of monocultures, cultivated mostly in vertical integration with a very high input of fossil energy, which produce significant profit, however, only if agricultural subsidies and direct payments are provided. This 'development' would cause though the same or very similar level of environmental destruction experienced in Western countries and result in further significant fall in agricultural employment, due to intensification and improved machinery. All this would be started in a political environment, in which longer-term rational considerations, external and internal forces, proposals for the future, even the rhetoric of EU policies suggest the close end of these policy directions. Two more issues should be considered. First, according to economic calculations, high input production can only be profitable in a supportive policy framework. In all probability, Hungary and

the CEE agriculture in general, will not receive the high agricultural subsidies of CAP, for a long time. This would place considerable burden on the EU budget, and would be against the interests of influential agricultural lobbies of the Union. Second, if we try to go on the same way as Western agriculture, starting with several decades of drawback in development and capital investment, then, we are likely to be lagging behind for a long time, with little hope for being able to catch up with the system. This scenario cannot be considered sustainable in any way. It would cause environmental damage, reinforce rural problems, such as unemployment, depopulation, and degradation of social and cultural values. Moreover, it is also likely to be a dead end road from an economic point of view, at least for the local economy.

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

### **The effects of the preparation for EU accession on rural development in Hungary – institutional considerations**

As a result of domestic and international forces, a strong Europeanisation of rural development policies can be observed in Hungary. This means European-type legislation, the development of strong central bureaucratic institutions and a fundamentally top-down style of rural policies in general. In today's Hungary, politics, economy and to a certain extent almost every area of life is preoccupied with issues related to EU accession. Various actors try to adapt to the sometimes impossible or meaningless requirements, hoping to stay in competition for the limited resources offered from above. The main concern and driving force is usually therefore, the money. At the national level this means currently the resources offered by the EU pre-accession measures. This has two important consequences. One is the lack of a well thought out, integrated development strategy. The reason for this is quite logical. The money is given by the EU and is distributed according to a somewhat ambiguous strategy (double message). The EU

offers the 'sustainability ideology' (decentralisation) and growth oriented programmes<sup>12</sup> (centralisation) together. This means two sets of values and two different policy directions, reinforcing the chaos in the young transitional democracies. These are trying to adapt their economy and society to an ambiguous European model, though the requirements of EU programmes are often inconsistent with domestic needs and an overall strategy. This can result in ad hoc decisions, driven by external forces, rather than a coherent inner logic<sup>13</sup>. The other consequence is the predominance of competition, over co-operation in the development arena. If the main driving force is to access the money, then the actors of each different level (countries, micro-regions, single enterprises) and different sectors are all in competition with each other for those limited resources, offered by central programmes. This makes co-operation, which is a crucial factor for sustainable development, much more difficult, if not impossible.

On the other hand, civil society found much support in the pre-accession process. The EU rhetoric on sustainability and participation and the positive examples of Leader, provided a 'ready made' ideology for local development activities and a greater involvement of non-governmental actors in development matters. Hungarian civil society used this opportunity and today represents probably the strongest *domestic* force for the decentralisation of power and resources in the development arena. Many NGOs gain increasing power and influence on national, regional and local level. Local development associations and their umbrella organisations have gained high level political representation. Apart from the civil society, another internal force for decentralisation is its necessity. The complexity and the extent of current and expected rural problems of the country do not allow for the waste of local resources or for the sole application of central policies. There clearly is great demand for a sustainable rural development approach, which can utilise Hungary's rich natural, cultural and social resources in order to solve social, economic and environmental problems in the countryside.

As a consequence, ideas of sustainable rural development are spreading amongst Hungarian politicians, bureaucrats, organisations and the public. This process results in the reinforcement of an endogenous approach and the *decentralisation* of some of the power, resources and competencies in different arenas or rural development. Within MARD, there is a section, although a small one with certain limitations, which is responsible for rural development and supports the ideas of sustainability. Partnerships were set up and a range of strategic planning documents has been prepared all over the country. No doubt, many of these plans were produced first of all to fulfil EU requirements, and different levels of planning often do not build on each other. However, the need for planning and co-operation have been realised and a lot of work has been done. The National Agri-environmental Plan for example, though it is not fully

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<sup>12</sup>The resources of current and prospected programmes are significantly reduced compared to the existing CAP. The reason is that CEE countries will not receive 'compensation payments' of the CAP that presently account the majority of the EU budget.

<sup>13</sup> Although, there are also some counter-examples: originally Hungary wanted to use ISPA funding for the reconstruction of the country's motorway system. However, ISPA funding, as every EU aid, was threatened with long delays, because of the bureaucratic requirements and strong financial control. Therefore, in order to carry out urgent road developments without delays, the government changed its strategy. It financed road building primarily from domestic resources and used ISPA funding for railway reconstructing, which was considered to be less urgent for the country.

implemented yet, represents a great improvement in policy development and a great possibility for environmental/nature protection and agricultural restructuring in the near future. People's perception of environmental issues is also changing gradually, in favour of a sustainable approach. The recently developed system of micro-regions, although characterised with some ambiguities, together with the Rural Parliament and their international connections possibly represents the most progressive element of sustainable rural development.

### **The two sub-systems of Hungarian rural development**

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

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

The main aim of the *local sub-system* was to improve rural livelihoods, based on both, central and local resources. Institutionalisation (setting up micro-regional associations and development agencies, employing rural development managers); and strategic planning (developing integrated programmes) seemed to be appropriate ways of doing this. This sub-system is based on local resources and participation and the 'everyday knowledge of local people', even if using external financial help for local projects. The 'decentralisation message' of the EU has had a strong effect here, directly and through

domestic programmes. Much of the local resources of Hungarian rurality (natural, human, cultural) cannot be utilised through central development policies. To employ these in rural development, a participatory, bottom-up approach is needed. At the same time, much of our countryside has to face serious problems (poverty, depopulation, environmental and social degradation) therefore, no available resources can/should be dismissed from the development process. This might be part of the reason why decentralisation and a bottom-up approach to development was so much welcomed by local authorities, civil organisations and the rural society in general.

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

The main mistake of both, the EU pre-accession programmes and our domestic policies is that the improvement of the two sub-systems was not balanced and there was hardly any connection between them. Political will and economic efforts were supporting the central system mainly and the micro-regional level did not receive sufficient support. Until recently, inadequacy of the central system was considered the most burning problem in Hungary, since without an accredited paying agency we could not access EU SAPARD aid. Now, after the launch of the programme, Hungarian rural development has to face new problems, arising from mistaken indicators, over-centralised implementation procedures, and the underdeveloped stage of the local, micro-regional institutional system. According to the experience of those countries in which SAPARD has been active for several years now (Bulgaria, Czech Republic, etc.), EU aid is extremely difficult to spend according to the strict procedural rules. However, this is the only way, since any mistakes lead to penalty and the withdrawal and repay of significant EU funds. Moreover, most of those resources which have been successfully distributed, supported industrial agriculture and the reconstruction of large food-processing plants (often owned by multinational companies). This may well be important for the competitiveness of the agri-food industry, but has little relevance for the improvement of rural livelihoods and other aims of rural development (CEC 2002).

Hungary is facing similar problems at the moment, having great difficulties with absorbing SAPARD aid in a country which lacked capital investment in its rural investments during most of its history. Nevertheless, the most significant problem for the medium-long term is that, there are too many conflicts and hardly any links between the two, currently developing sub-systems of Hungarian rural development. Institutions, rules, procedures and objectives – similarly to the EU system – do not compose a coherent, integrated system. As a result, even if we manage to spend the expected rather narrow EU resources, the money will not go to the adequate places and people, local resources will not be utilised and like this, the efficiency of our development system and policies will be very low. On this way, we have hardly any chance to catch up with the achievements of EU rural policies, or to compete with the rural economy of Western

European countries. For a more promising future, current EU rhetoric should be turned into practice, giving way to social, economic and environmental sustainability; integrating various levels and economic sectors in a coherent rural development system. On this way, many aspects of current 'rural backwardness' could be turned to advantages; local resources could be utilised and Central and Eastern European countries could become the champions of integrated rural development in an enlarged Europe.

Nevertheless, problems can also occur in connection with an integrated approach. In general, there is little experience about: how local resources can be unlocked and local actors empowered; how social exclusion should be avoided and legitimacy ensured; how new development models, well working at one place, can be adopted to various circumstances; how effective local participation and co-operation can be achieved; what sorts of local institutions, and services should be built; and in general, how can central policies support local level development, spending public money on a transparent and accountable way, but still abiding local objectives; and how results can be evaluated according to objective criteria, etc. To clarify these and similar issues, with special regard to that, how an integrated development could/should be adapted to the Hungarian (or Central European) circumstances, further research is needed. The EU Leader programme, (the solely current European policy of this field) and some domestic variations of it (such as the PRODER in Spain) would provide an excellent field for this research.

## **Conclusions and Recommendations**

Based on our research, a general recommendation for Hungarian rural policy makers could be: to take a more integrated approach towards rural development, strongly supporting the improvement both, central and local development systems and facilitating appropriate co-operation between them. We emphasise this, despite the fact that current EU requirements do not always practically encourage such an approach. We still believe that, this strategy is well suited to medium-long term trends, and would be very advantageous for Hungarian rural areas. Currently in Hungary, as well as in the international arena, strong political and economic interests (with special regard to agricultural lobbies) oppose this approach. This often create political and social barrier in the way of improvements. Nevertheless, an integrated development approach benefits rural economy and society as a whole, and should not be seen as a threat by any actors on the ground. Policy makers should invest into educating actors, creating a better understanding of these issues amongst all stakeholders.

For Hungary (amongst other accession countries), agri-environmental and less favoured area policies (as opposed to traditional agricultural support) would allow for a higher level of EU aid. For this, special attention should be paid to potential support in the field of agri-environmental schemes; Less Favoured Areas (LFA); Environmentally Sensitive Areas (ESA); ecological production; and the implementation of various environmental directives (Natura 2000, Birds, Habitats, Water Framework Directive, etc.). These EU policies carry potentially high level, normative type support (no need for match-funding), especially for those areas, the least competitive in traditional intensive agriculture. However, the implementation of these measures is rather complicated, requires sophisticated institutional and control mechanisms and a high level of knowledge on the local level. Therefore, intensive preparation for these measures is needed.

Other important schemes are those: aiming rural diversification; the increase of locally added value; the development of short food chains; and supporting integrated local development programmes. These schemes are well suited to unlock local resources and development potential. However, the existence of well working local development institutions, local participation and co-operation and adequate control mechanisms are essential. Therefore, intensive preparation is needed here too.

### **Policy recommendations for Hungary**

- **SAPARD** - The still missing five measures of the SAPARD programme should be accredited as soon as possible, and the already running three measures should be changed, in order to make them more accessible for small agricultural producers and other rural development actors (procedural rules, eligibility criteria, indicators, etc.).
- **Agri-environment** - The Hungarian Agri-environmental Programme should be extended, with at least a three-fold increase in the budget. Zonal schemes should be implemented horizontally. (Without this Hungary will not be able to absorb EU agri-environmental policies.)
- **Micro-regions** - The local development sub-system should be reinforced. The government should support voluntary micro-regional associations (SAPARD micro-regions) rather than the statistical sub-regions. (The former usually represent local initiatives, co-operation, established partnerships, the latter only represent central political will and bureaucratic practicality in general.) Local development managers (appointed by the local associations) should be subsidised by the central budget. Networking of micro-regional associations (national and international) should be supported.
- **Bottom-up development policies** – Domestic rural development policies, similar to the EU Leader programme, should be launched with significant resources, as soon as possible. This could greatly help the preparation of local actors, institutions; would raise human resource potential; could start mobilising local development potential; and would greatly reinforce the local development sub-system in Hungary.
- **Training** – The preparation of rural population for EU agricultural and development policies and the improvement of human resource potential in general should be significantly reinforced. Training for local authorities, entrepreneurs, NGO representatives, etc. should be organised. Besides technical, professional knowledge, other skills, such as community development, facilitation, mediation, communication techniques should also be taught. The training and preparation of professional advisory networks (agricultural, rural development, etc.) is especially important.
- **Planning and social dialog** – The planning of our future National Development Plans should be organised through a bottom-up process, involving micro-regional associations, NGOs and all accumulated knowledge and experience in the field of rural development<sup>14</sup>. The current practice, when NGOs can only see ready

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<sup>14</sup> Neither the National SAPARD Programme, nor the current version of the Rural Development Chapter of our future National Development Plan (AVOP) went under a serious social dialog. In both cases the Hungarian Rural Parliament was asked to organise a dialog and ask the opinion of involved local



programmes (which have been worked on for years sometimes) and have to comment on them within a few days, is fundamentally bad and should be changed. On this way only minor changes (if any) can be initiated, and even those are often dismissed from the final documents. Planning should start from the ground, leaving sufficient time and space for involved stakeholders and future beneficiaries to have an influence on setting objectives and designing implementation. Real social dialog and the democratisation of decision making on various levels is essential.

- **EU funds after accession** – Hungary should NOT use EU funds, arriving for rural development to complement direct agricultural subsidies (this is a real danger today, it could be called ‘negative modulation’). This would seriously reduce our chance to build an effective rural development system. Rather, the government should work out a strategy to combine different EU funds and policies (CAP, Structural and Cohesion Funds) in order to provide sufficient resources for integrated rural development programmes after EU accession.
- **Integration and multi-sectoralism** – Rural development should be multi-sectoral and spatially oriented. A horizontal system for inter-ministerial co-ordination (between agricultural, environmental, educational ministries, etc.) in order to integrate financial and human resources is essential for good results. (This should be similar to the inter-ministerial co-operation for the communication and IT strategy, already existing in the Hungarian government.)

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