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## **Social and Administrative Crises Interlocking: The Misery of Rural Peripheries in Hungary**

### **Abstract**

This paper reports on the fundamental processes reshaping rural areas in Hungary. Using indicators of social composition of settlements, the first section demonstrates large-scale polarisation resulting in vast zones of social crisis on the peripheries. The proceeding sections explore that small villages in lagging areas have been in a situation of despair in the last decade and a half, partly because of the social and economic burden they had to cope with, and partly because of their meagre financial situation brought about by the contradictions of the Hungarian administrative system, fiscal policies and their marginal position in relation to their access to development funds. The last paragraph of the last section voices hopes concerning some second generation development policies targeting rural areas in general and lagging areas in particular with more focused policy instruments.

The study refers to research material gained from the following projects.

- SOCCOH, an EU 6<sup>th</sup> Frame Programme on Europeanization (2005–2007)<sup>1</sup>;
- “*Participatory planning and generating development projects*”: an action research combined with mentoring/advising 35 deprived municipalities (2007)<sup>2</sup>;
- An empirical research on micro-regional associations (2006–2007)<sup>3</sup>;
- “For the equity of small villages and their inhabitants” – empirical research on development prospect of small villages. (2005–2007)<sup>4</sup>.

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<sup>1</sup> Lead partner: LSE, London, Project leader: Robert Leonardi. Hungarian Partner: Central European University.

<sup>2</sup> SZMM 3248/2007.

<sup>3</sup> Multi-Purpose micro-regional associations ... 124/tkOKA I.

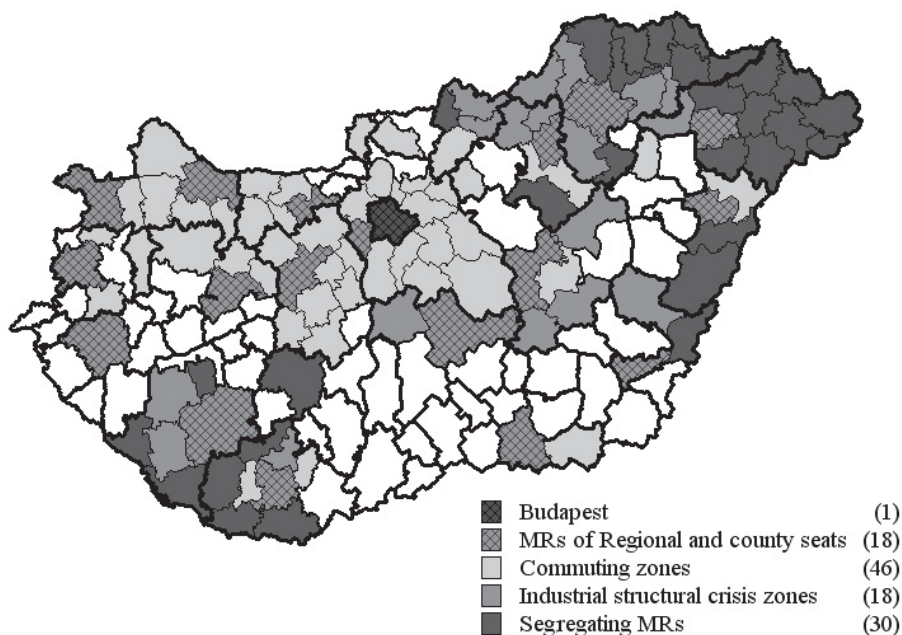
<sup>4</sup> Supported by the NKFP.

**Keywords:** social and spatial polarisation, uneven development, lagging rural areas, rural poverty, local government revenues, development policies, distribution of EU funds.

### The Polarisation of Rural Space

With the exception of Hungary's western and north-western zones, rural spaces on the geographical peripheries can be registered among the greatest losers of the system change, especially if the settlements are small, and/or located in so-called structural crisis zones such as regions of heavy industry. Due to the combined effects of market forces, and state intervention, significant social and spatial polarisation has been experienced in Hungary in the last decades. Beyond the existing urban/rural divide, an increasing influence of geographical location has been identified by recent research.

In an earlier study based on the analysis of statistical information, we grouped Hungarian micro-regions mainly according to the migration, occupational and income-related data, information about the skills of their population and their commuting opportunities. (Bihari and Kovács 2005) The picture has shown that the decisive push towards classical agglomeration zones has created affluent belts of suburbia around greater cities, particularly Budapest, polarising the social composition of settlements to a hitherto unknown extent. The migration in the 1990s sent a rather large layer of upper-class from urban centres to the suburbia. At the same time a population of very low social status, the rural poor, in some spots even 'underclass,' accumulated in disadvantaged areas. As the latter phenomenon has an ethnic element, because the Roma population is over-represented in these areas, we can talk about emerging 'rural ghettos' as a long run and final impact of social and spatial differentiating processes that started as early as the 1960s in Hungary. (Kovács 1990, Havas 2004, Ladányi and Szelényi 2004)

**Map 1: Advanced and lagging micro-regions in Hungary**

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Our recent research with Bálint Koós confirmed our earlier findings. The *poverty scale* set up along the value of a complex indicator created from the indices characterising the social composition of the inhabitants of Hungarian settlements<sup>5</sup>, the analysis identified 714 'lower class' villages ending up in the highest poverty risk category in 2005, with a summary population of 730,120 (roughly 10% of the rural population.) The following selection of indicators, give some hints about the features of rural communities falling into this group of villages.

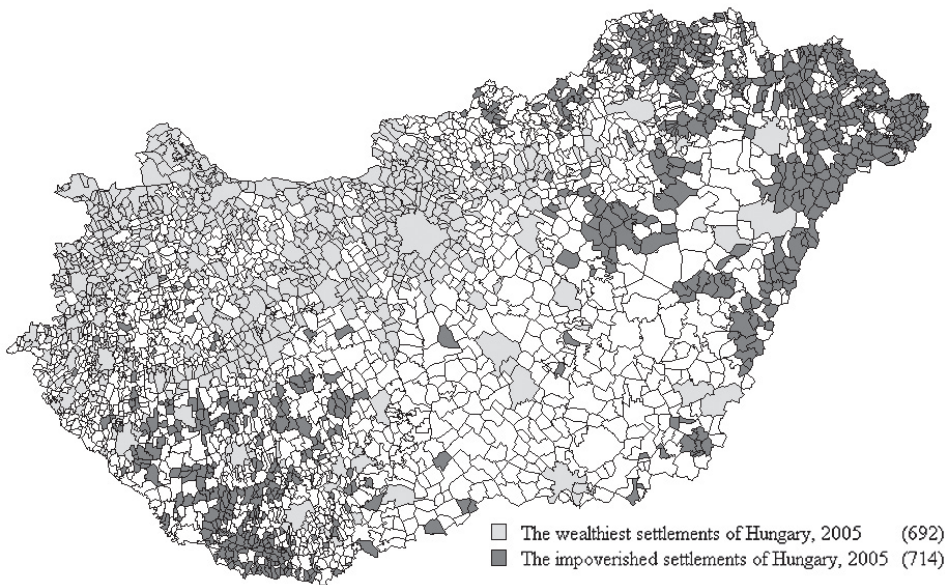
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<sup>5</sup> (1) The reverse of aging index 2005, (2) The proportion of secondary school graduates in the rate of the population over 18 years of age, 2001, (3) The amount of taxed revenues and pensions per month 2005, (4) The proportion of families without active earners 2001, (5) The proportion of families eligible for child care support, 2005, (6) The proportion of registered unemployed among the population aged 18–59, 2005. (7) The proportion of people on early retirement 2005. (8) Taxed revenues per capita 2005. Sources: Census 2001, T-STAR 2005, Central Statistical office, Budapest. Data were analysed by Bálint Koós, a colleague in the Centre for Regional Studies. I wish to express my gratitude for his work.

- In contrast to every other category, the rate of natural reproduction is positive in the poorest villages, with a vast Roma population showing four times the average.
- The unemployment rate is 175% of the average settlement in the Hungarian countryside clearly expressing the scarcity of job opportunities.
- The per capita number of enterprises is less than one half of the average, the employment rate compared to the total population remains steadily under 60%, while the monthly income (or monthly retirement) after taxes per capita is only 63% of the Hungarian average.

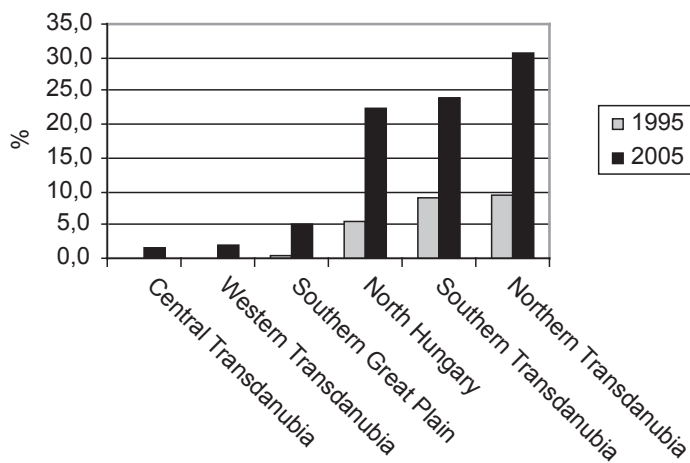
In summary, villages grouped under the high poverty risk category can be characterised with a lack of enterprises and jobs, therefore high unemployment, decent income, a high rate of so-called social transfers among family income sources, a trend towards social and ethnic segregation. The regional bias is clearly indicated by the map below, to put it simply: wealthy, competitive spaces are situated in Central and North-West Hungary, the dwelling spaces of the rural poor, the ‘lower class’ villages are accumulating in the small-village area of North-East and South-West Hungary.

**Map 2: Spatial distribution of wealth and poverty in Hungary**



When analysing the changes taking place between 1995 and 2005 in the number of 'lower class' settlements with an extremely high presence of poverty, and regarding the total numbers of population living there, the results of our comparison bore out similar results as our earlier studies, namely, that a dramatic process of social and spatial polarisation emerged: the situation of settlements in progressing regions, big city agglomerations or along highways was further improving, while the situation of those found in the four poorer convergence regions (North Hungary, the two Great Plains regions and Southern Transdanubia) was steadily decaying. The number of settlements with a high poverty risk compared to the total number was highest in the North Great Plains Region in 1995 (14%) and the same is true of 2005 (31%). The proportional numbers of inhabitants living in the lowest category settlements show the same picture: 4% of the total population of the North Great Plains Region lived in settlements classified as poor in 1995, while 12% in 2005. Thus both statistics tripled within one decade. The amount of growth in numbers was about the same in two other convergence regions, that of Northern Hungary and the Southern Transdanubian Region.

**Diagram 1: The proportion of settlements with high poverty risk by regions 1995–2005**



From among the determinants of uneven spatial development, the following ones must be highlighted in the Hungarian context:

- the proximity of the dynamic urban centres and the accessibility of these centres (road networks and the availability of public transport),
- the dynamism of development at regional scale,
- the density of networks between (small) towns and villages and/or along motorways in commuting zones.

These are the factors determining people's employment opportunities and livelihood either locally (in the neighbourhood), or in urban centres (via commuting). The number of jobs and commuters has decreased to a large extent (43% and 40% respectively between 1990 and 2001) in those predominantly rural areas, where peripheral location was coupled with further disadvantages. The concerned social crisis zones emerged in those lagging regions, where

- the representation of underdeveloped rural areas of agricultural profile is much higher than the country average (the peripheral areas of the North Great Plain Region),
- the economic regeneration from post-socialist structural (industrial) crisis has not taken place (North Hungary and South Transdanubian Region),
- the settlement system is dominated by small-scale villages and towns with weak network lines with the surrounding villages as well as among themselves,
- the proportion of the Roma population is much higher than the average, particularly in small villages.

Research results show that the ability of the disadvantaged countryside to sustain people has greatly atrophied, which means that people living there have had a hard time finding jobs either locally or in neighbouring settlements, while city job opportunities (further away) have failed to compensate for this reduction by more jobs. A double filtering process can be observed between the labour force living in small settlements and the jobs offered in cities (mainly metropolitan areas): due to the increasingly high cost of commuting, distances themselves have become more and more unbridgeable for village residents (Kertesi and Köllö 2003, Bartus 2003), while the conditions of employment grew stricter both regarding qualifications and certain abilities.

In the context of EU accession, risks have been growing, given the inequalities of access to the new development resources threatening with an increasing gap between core and lagging rural areas, particularly if, in addition

to their peripheral position in economic and social fields, they were cast aside by public administration structures as well, which is exactly what has been happening.

### The Hungarian Local and Territorial Administrative Structures

After the change of regime the Hungarian local government system became largely fragmented. The joint local councils that had been established in compliance with a decree in 1971 were terminated, and the disintegration of settlements formerly established out of an enforced union of minor settlements began taking place. Meanwhile, no example of opposite tendencies has been observed, since there has not been any settlement that would have given up its own local government. At present, approximately 3200 local governments operate in Hungary, one in each settlement<sup>6</sup>, which is frequently deemed to be too high, although experts warn: it is not the number of local governments that is the source of problems.

If put in a simplified manner, as opposed to the two well-known European models of local government labelled as the northern (based on large units with broad competencies) and the southern models (based on small units and narrow competencies), the Hungarian model of local government combines the two in a contradictory manner: The peculiar feature of the Hungarian 'mix' is that a southern, scattered type of local government system has to cope with a broad scope of tasks usually associated with the northern model. The inherent contradiction of the set-up could have been resolved in case of the fast appearance of local government associations which did not come about though the initial enthusiasm was soon followed by disillusionment in the ranks of municipalities, as restrictions caused by low revenues became apparent<sup>7</sup>. Difficulties in maintaining public services encouraged some small-scale settlements and/or small towns in the surrounding villages to operate public services jointly, but the number of such initiations was rather limited. From 1997<sup>8</sup>, when the first relevant legal framework on municipal associa-

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<sup>6</sup> Neither scattered farmsteads (so-called *tanya*), nor sparse dwelling places within the agricultural border area (*külterületi lakott hely*) are qualified as 'settlement'.

<sup>7</sup> For an account of this in relation to the provisions of public education, cf. Radó et al. 2006.

<sup>8</sup> Act no CXXXV of 1997 on the Associations and Co-operation of Local Self Governments.

tions came into force (Act on Association), the number of formal legal co-operations increased significantly (Imre 2003). Voluntarily run small-scale associations, particularly those aimed at joint running of kindergartens and elementary schools were and still are promoted by state subsidies. Act No CVII of 2004 on the Multi-Functional Micro-Regional Associations (hereinafter multifunctional associations) also exploited the 1997 regulation, when it encouraged larger scale co-operations in order to guarantee sustainable, cost-effective public services and, in practice, fostering the further concentration of rural schools. The common legal background means that assembling into multifunctional associations remained a voluntary action of local governments,<sup>9</sup> although volunteering was illusory in most cases. In addition to this, strong oppression was set on local authorities to join. The 2004 Act was much less liberal, than the Act of Associations issued seven years earlier. Its oppressive nature can be identified from the following directives:

- mandatory spatial and organisational structures (NUTS 4 tier, exclusive membership of local governments) as well as mandatory tasks were stipulated (coordinating development goals and activities<sup>10</sup>, organising public education, social services and health care),
- the provision of state incentives were partially rescaled: some most important incentives are passed now to the beneficiaries via the working units of the multifunctional LG associations if the strict eligibility criteria are met.

In the course of only three years all local authorities joined multifunctional associations at micro-regional level. They did not have another option. Most of them were captured by a meagre financial situation that severely hindered public service delivery as well as the upkeep of their assets and satisfying development needs. To find an explanation for the quick success of the multifunctional associations is fairly simple: small-scale and weak local authorities were unable to escape joining them, larger and better supplied ones did not want to disclaim the additional sources, associated with implementing a set of tasks within multifunctional local government associations.

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<sup>9</sup> The amendment of the relevant act i.e. the Act no LXV of 1990 on Local Governments would have needed the majority of votes in parliament.

<sup>10</sup> Both the task (grassroots regional development activity) and the spatial unit (NUTS-4 level) were set up by Act no XXI of 1996 on Regional Development and Physical Planning.



The structure brought about at NUTS-4 level may be interpreted as an endeavour for local government reform, including a partial reconfiguration of the basic level of governments and that of the lower middle level. The model also suggests a solution for the inner contradictions of the mixed Hungarian model of local governments by allowing multifunctional municipal associations to absorb tasks from below, thus abolishing the tension between the narrow capacities and the broad responsibilities of the local level. The time since multifunctional associations have been operational has been too short to evaluate its achievements. From the scarce research and the state audit report (Kovács and Somlyódyne 2008, State Audit Office Report 2008) good and bad experiences can be equally drawn: social services and certain pedagogical services have become far more accessible than before. At the same time, the concentration and/or closure of small schools seems to be too rapid, too strongly pressed: half of the village schools operated in 2004 were either run jointly by 2008 or disappeared.

The strengthened administrative/project generating capacities were also evaluated positively particularly in lagging areas. This had to do with the fact that some 80% of multifunctional municipal associations opted for establishing their working units in charge of implementing administrative and organisational tasks separately from existing municipal offices. These working units had to report to the Councils (made up by the mayors of the area). The rest of the associations chose to stay with the central municipality offices. On the basis of the former solution new 'mini development agencies' could increase human resource capacities significantly, whereas the latter solution favoured exploiting the existing capacities of town offices more intensively.

At this point, the insertion of a lower-middle tier into the hierarchy of administration can also be explained as part of the so-called Europeanization process. Europeanization in a broader sense signifies the adaptation of potential/new member states to the Union's major norms, working principles and spatial arrangements. The latter aspect yielded the seven statistical regions (NUTS-2 level)<sup>11</sup>. Despite a rather strong "pro-region" movement in Hungary that preferred the establishment of NUTS-2 regions not only as statistical units and chief actors of regional development, but also as self-governing entities, it was the counties (NUTS-3) that won the struggle. Counties are strongly rooted in historical traditions of public administration in Hungary, therefore

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<sup>11</sup> Six of the statistical regions comprise three counties each, one of them, the so-called Central Hungary Region consists of the capital city and the surrounding Pest county.

remained afoot, albeit with significantly shrinking competencies. The 19 counties continue as the only intermediate-tier units of public administration with elected self-governing bodies. Despite being self-governing bodies, counties cannot levy taxes, it is only the local and central tier of administration where taxes are collected. Therefore the revenue equalising mechanisms are absent at basic and intermediate tiers of governance in Hungary, which sets a power relation between the centre and the rest of the governance tiers, which, after all, seems to generate another weak point of the system as a whole.

Decreasing competencies of counties were already stipulated in the National Spatial Development Concept (NSDP) issued in December 2005<sup>12</sup>.

The NSDC allocates tasks and responsibilities to the micro-regions, regions and the counties, usually at the expense of the latter. Regions are interpreted here as the future loci of territorial democracy with elected self-governments and coordinating partners. This is the tier of regional programming, programme implementation and monitoring equipped with appropriate capacities assisted from the lower ranks as well. Micro-regions (NUTS-4) are also envisaged as long-term regional policy actors being loci of planning, harmonising and mediating the interests at local level, as well as rationally operating public services with assistance from the counties. Beyond assisting the regions and micro-regions in programming, the responsibility of counties is restricted to public service provision in the middle run, and the smooth integration into the regional institution system in the long run. The rescaling of tasks became manifest in 2007, when the responsibility of allocating the most important tool of regional policy, i.e. the so-called decentralised regional development appropriation, was lifted from the counties to the regions.

Despite limitations and paradoxes, the allocation of financial resources aimed at regional development represents the field of governance, where decentralisation has recently been breaking through. In the 2007–2013 programming period, each region has its own development strategy and operational programme (ROP), accepted by their development council, managed by the regional development agency, and approved by the National Development Agency, the Government and the European Union. However, this decentralisation which deals with EU resources primarily and increasingly is centrally controlled. Notwithstanding the composition of the

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<sup>12</sup> 97/2005. (XII. 25.) Parliamentary Resolution on the National Spatial Development Concept.

decision-making body (regional development council) with a safe majority of government representatives, the implementation of the seven regional operational programmes is controlled by one Central Managing Authority, and monitored by two Monitoring Committees, one responsible for the six so-called convergence regions, and one for Central Hungary. In 2008 EU pressure was needed to convince the government that regional sub-committees had to be established in every single convergence region.

The first section demonstrates the impacts of social and spatial polarisation that have been taking place in rural Hungary in the last decades, the second introduces the frame of governance, the next sections will connect the two and illustrate the misery of small-scale village municipalities.

### **The Revenues of Local Governments in Small Settlements**

Considering the development chances of small-scale villages after the fall of Socialism, Koós pointed out that a remarkable fluctuation has been taking place. (Koós 2009) According to his analysis, at the beginning of the 1990s a development boom was experienced in such villages due to vast state investments in public utilities lagging behind (electricity and drinking water supply). After these projects had been realised, the boom was followed by an ebb again, the implementation of gas distributing and sewage systems tended to be realised in more populated towns. Then, from 2002, the curve indicating the investment rate of small villages climbed up again. This signalled an improved situation concerning access to investment funds, but it was accompanied with the constant narrowing of the revenues utilisable for the operation of the public institutions and other maintenance costs. Their own inability to maintain public services was even more painful for village leaders than their weak capacities to cover new investments with the help of EU funds. Therefore the subject changed slightly, but the complaints of local leaders continued.

These tendencies are illustrated by the table below, showing on the one hand, the varying structure of revenues by the categories of settlements, and, on the other, the drastic reconfiguration of entitlements. The so-called normative support<sup>13</sup>, for example, within the state grants has dropped dramatically, in

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<sup>13</sup> This kind of state grant is provided on a per capita basis aiming at covering the operational costs of public institutions. Usually 60 per cent of the costs is covered by state funds, but it can be much less, if the number of clients (e.g. pupils at local school) does not reach

the case of the smallest villages a decline of around 30 per cent is observable<sup>14</sup>. Normative state support has reduced not only in relative terms but also nominally: in dwarf villages with less than 300 inhabitants the per capita figure is one tenth, in the next village category with 300–500 inhabitants it is one fifth of the county average.

**Table 1: The changing contribution of normative state support local taxes within the revenues of municipalities by settlement categories between 1991–1995 and 2001–2005**

| Settlement categories by population number | The normative state support rate within state grants | The local tax rate within the total of revenues | The normative state support rate within state grants | The local tax rate within the total of revenues |
|--|--|---|--|---|
|  | the average of the years 1991–1995                   |   | the average of the years 2001–2005                   |   |
| Below 300                                  | 66%  | 0%  | 16%  | 3%  |
| 300–499                                    | 68%  | 1%  | 28%  | 4%  |
| 500–999                                    | 68%  | 1%  | 44%  | 4%  |
| 1000–1999                                  | 73%  | 1%  | 49%  | 6%  |
| 2000–2999                                  | 73%  | 2%  | 51%  | 6%  |
| 3000–4999                                  | 76%  | 2%  | 52%  | 8%  |
| 5000–9999                                  | 75%  | 2%  | 54%  | 9%  |
| Over 10,000                                | 81%  | 5%  | 66%  | 17%   |
| <b>Total</b>                               | <b>78%</b>   | <b>4%</b>                                       | <b>59%</b>   | <b>14%</b>                                      |

\* On comparative prices.

Source: Territorial Information System.

The decline of normative state funds reflects the shrinking state-sponsored tasks in the smallest villages, which legitimises the cuts. However, a secondary impact of the rearrangements occurred at grassroots level, i.e. the narrowed space of manoeuvre of village councils due to the diminishing liquid monetary resources hindering development activities as well as the provision of the

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a certain minimum. The absent part of the costs has to be supplemented by the maintaining municipalities.

<sup>14</sup> Figures of the tables are based on the average revenues of local governments between 1991 and 1995, and 2001 and 2005 calculated at comparative prices by Bálint Koós.

remaining services. This situation forced even the smallest local governments to levy taxes on local businesses as well as dwelling units (communal tax). The chosen solution explains the sharp increase of the proportion of the local taxes within the revenues of the municipalities (this grew triple in a decade), but for small settlements it meant nominally such a slight sum of money with which even a fraction of expenses could hardly be covered.

**Table 2: The local governments' own source revenues/capita compared to the average by settlement categories, 2005**

| Settlement categories<br>by population number | Own source<br>revenues/capita   | Shared<br>revenues/capita | State<br>grants/capita |
|---|---------------------------------|---------------------------|------------------------|
|   | in the % of the country average |                           |                        |
| Below 500                                     | 29%                             | 154%                      | 92%                    |
| 500–999                                       | 36%                             | 128%                      | 119%                   |
| 1000–4999                                     | 49%                             | 112%                      | 107%                   |
| 5000–9999                                     | 65%                             | 107%                      | 101%                   |
| Towns with 10,000–40,000 inhabitants          | 121%                            | 119%                      | 110%                   |
| Towns with 50,000–80,000 inhabitants          | 151%                            | 102%                      | 117%                   |
| Regional centres                              | 142%                            | 100%                      | 122%                   |
| Budapest                                      | 145%                            | 35%                       | 49%                    |
| Hungary                                       | 100%                            | 100%                      | 100%                   |

Source: Territorial Information System.

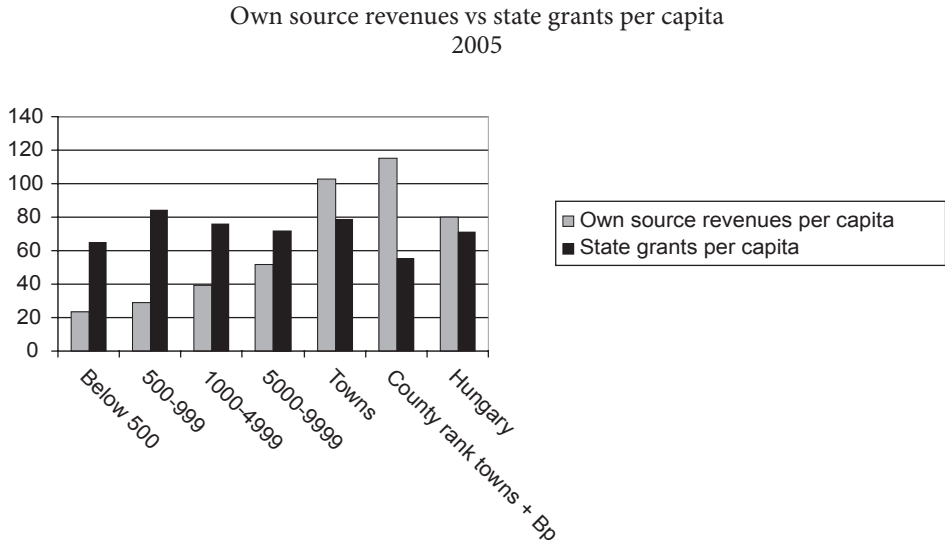
The above table illustrates the compensation mechanisms on the basis of 2005 data. Low own source revenues, being heavily dependent on the population number of a settlement, are compensated by the so-called shared revenues primarily via the redistribution of one of its three components<sup>15</sup>, i.e. personal income tax<sup>16</sup>.

<sup>15</sup> Tax on motor vehicles, the locally retained part of personal income tax and in case of eligibility supplementation, other taxes (including tax on lease of arable lands).

<sup>16</sup> In Hungary only 8–12 per cent of personal income tax was made use of locally in the past decade, and the revenues from local business tax (if they were high compared to the number of population) have been struck with destruction.

It seems reasonable to conclude that the smaller the settlements, the stronger their dependence on state redistribution mechanisms illustrated by the graph below (See also: Šević 2008).

**Diagram 2: ‘Dependency index’ of municipalities by size categories**



Source: Šević.

Having no revenue equalising mechanisms at any of the intermediate-tiers of administration in Hungary, villages and small towns are rendered to the mercy of the fiscal policies and actions of the central government. It can be well illustrated by the fast spread of multifunctional associations of municipalities between 2004 and 2008. The conditions of allocating state grants for fulfilling a set of tasks determined by the government in the relevant act as well as in the budgetary laws issued yearly secured a relatively smooth breakthrough. What else if not complete financial helplessness explains the loss of half of the village schools within four years?! In the light of the heavy dependent rate in financial terms, political autonomy of the smallest villages seems to be fairly illusionary.

This section started with a research finding according to which the position of small-scale villages concerning their access to development resources was

on an upgrading slope in the first half of the last decade. In the light of the results of empirical research presented below, it seems to be safe to state that either better chances do not apply to the villages of lagging rural areas or the curve illustrating the improving position of small-scale villages, in the context of EU membership, turned down once again.

### **Development Needs of the Small-scale Villages of Rural Peripheries: Empirical Evidence from Field Research Carried out in 2006–2007**

In recent research pursued in 35 small villages of five disadvantaged micro-regions during 2006–2007 at the request of the Ministry of Social and Labour Affairs, roughly 60 interviews were conducted by the researchers with key actors of the micro-regions, primarily with mayors, heads of institutions and entrepreneurs.

It is already telling that in two of the five micro-regions, mayors did not want to deal with issues related to development at all in spite of the free mentoring services offered. In the background of their reticence one could observe apathy, hopelessness, programmes shelved and unused, agendas remembered together with the numerous obstacles barring their realisation, with most of their endeavours and hopes being judged as of no avail. The general scepticism relating to programming was doubtlessly coloured by the fact that it was around that time that the regional development agencies were drawing up their two-year action plans to launch the regional operational programmes (ROP), having held consultations with micro-regional associations about the projects planned to be realised there. Many people had been disillusioned by the consultation talks between the regional agencies and the multifunctional municipality associations, since it quickly turned out that those projects that they hoped for – either as a way out, or for their survival at the minimum – would never qualify for ROP assistance, leaders of small disadvantaged settlements felt they were being excluded from development opportunities. (There was one village mayor who burst into tears when giving an account of the consultation held with the Regional Development Agency – true, this person was new in this field: a mayor freshly elected to office.)

The cause behind this was that the needs and demands observed in the researched micro-regions, and especially in small settlements, were light years away from the needs and demands targeted by the programmes of the New

Hungary Development Plan<sup>17</sup> both as regards their scale and their resource requirements.

Local ideas and visions prioritise a tranquil, typical “rural” life in these small villages, attending to the environment and providing a sense of infrastructural comfort. They may cover things like the maintenance of public buildings and the establishment of parks, playgrounds, or the asphaltting of pavements and roads, the cleaning of ditches or the repair of cemetery fences. All these small-scale developments would serve the goal of keeping small settlements habitable, and they would all require national resources of assistance, resources of regional and rural development.

It should be noted that the need of covering such elementary needs of remote rural settlements out of EU resources is related to the absence of adequate revenues of local self-governments illustrated above and the decline of state-sponsored funding opportunities. Under the pretext of maximising the country’s absorption capacities of EU funds, domestic support programmes and the relevant funds have been re-channelled towards EU co-financed measures as much as possible.

Grouping the needs for development have been voiced by the leaders of 35 small settlements, the list is as follows:

*Accessibility* may be just one criterion among many, but it is perhaps the most important one these days, seeing as there is a dramatic deterioration of public transportation services prominent in about three quarters of the sampled regions (with exceptions served only by settlements situated along major roads). Isolation should be, however, remedied, both from the point of view of employment (accessibility of jobs) and the educational aspect, interlaced with opening up towards the world and co-operation. What this entails is the development of roads, transportation services and wide-band Internet access, new projects and the maintenance of existing ones alike.

Another priority – which surprised the researchers – was the matter of solving the *cleaning and removal of wastewater*, mentioned among the first priorities in almost all the micro-regions of the South Transdanubian Region. Why? Because the wastewater from these villages is almost always removed by illegal or semi-legal means, heavily polluting the environment, creating

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<sup>17</sup> NHDP – the country’s overall programming document for 2007–2013 co-financed by Structural Funds and by the Hungarian government.



bad feelings in everyone and inspiring fears of retaliation. Another equally important consideration of our respondents was that no serious enterprise receives an operational permit as long as its wastewater problem remains unsolved.

The situation of young people was also mentioned as a ubiquitous and grave problem: *to save 'wasted youth'*, i.e. the next generation. There are no places or programmes for young people to spend their leisure time in intelligent ways. That would require sports fields, changing rooms with showers, easy transportation between settlements, organising young people, new or refurbished cultural or village centres with multiple functionalities supporting public libraries, cultural events, leisure activities, Internet-cottage sites as well as public education afternoon programmes, and training for (young) adults.

*Retaining institutions*, mayors' offices and/or schools was voiced everywhere. Fears regarding the future, as well as conflicts among settlements – precluding co-operation in the present – are mostly observed with regard to that topic.

The fourth main area of micro-regional development tasks mentioned as last, but not least in importance, is *the problem of meagre employment rate*. The fourth position of that issue on the list of priorities does not express its importance in the eye of mayors; indeed it reflects the helplessness of small-village leaders. They do not expect much from the government programmes aimed at increasing employment opportunities of the long-term unemployed, since, in their view, those programmes were hopelessly insubstantial to alleviate problems generated by the massive lack of accessible jobs and the negligence of investors that do not allow making ends meet for the majority of their population. This is where they see the root of all problems.

The common complaint also has to do with earning opportunities of villagers, namely the scarce chances to start or extend tailored poverty alleviation programmes such as the so-called social land programmes which would allow wider access to subsistence farming, both as regards their scope of activities and their participants.

*Social land programmes* – after a 45-year pause – were restarted in the early 1990's, aiming at assisting the poorest rural households in getting access to subsistence farming or additional earnings. The vast majority of social land programmes has been organised by local governments. Municipalities must apply to the Ministry of Social Affairs, which is responsible for the scheme. The money distributed ranges from 3,500

to 15,000 Euros, with cases differing from one another significantly, reflecting local needs and cultural issues, such as the presence or absence of 'peasant attitudes'. The most typical example is agricultural machinery for providing services (ploughing) to plot owners, providing piglets or rabbits in order to secure self-produced food for the poorest of families, and a set of commodity production schemes – from dairy farming to cucumber and bean production. Local governments of settlements where social land programmes have been initiated are usually headed by a former agricultural engineer or a socially sensitive leader. In the former case, knowledge and organising ability, along with "social capital" connecting to the markets of production are evidently there, in the latter case, they are provided by the person hired to fill the post. Individual social land programmes are framed by market economy institutions and agents to various extents. Market dependency is limited in case of self-sufficient "farming," rather strong in all types of commodity production (input, management and markets should be secured), while programme-supported machinery services are somewhere in the middle. This latter part has rightfully been criticized in some cases for generating unfair competition between programme-supported agents and non-supported market actors.

The peak of supporting social land programmes was in 2002–2003, when approx. 1 million Euros was spent on this scheme by the Hungarian government. In the next years, that amount was halved, then further dropped to one-third of its peak value. The bottom was hit in 2005, when the curve started to rise again, and by 2007, it almost reached 2003 values. In between, uncertainties relating to the effects of EU accession and the subsequent role of land-related subsidies explained the huge loss of state funds feeding in. From 2006, the programme was to be inserted into the second generation of rural development programmes (the New Hungary Rural Development Programme 2007–2013), with little success. The Commission refused to approve the integration of the programme so far (Rácz 2009).

Regarding future prospects, hopes were voiced concerning the *development potential for tourism*, which could be utilised based on the beautiful landscape of the South Transdanubian Region, or using the potential of the river in the case of villages along the river Tisza. (Jávor, Magócs and Sain 2008) A certain type of 'tourism' already existed in the most spectacular lands, mostly from

foreigners and city people who purchase houses and renovate them to spend their annual vacations or retirement years – living there on a part-time or regular basis. This could obviously mean some business, especially for property agents, but it also has its drawback, since houses – or later entire villages – remain unoccupied for months or years, while this type of ‘tourism’ can cause property prices to skyrocket. Purchase tourism, mentioned as a grave problem in Transdanubia, could ruin the chances of settlement of local youth ready to leave the nest.

### **Contrasts: The Offers of the Development Programmes for Villages**

After introducing the typical wishes of lagging – or simply small-scale – settlements and before introducing the analysis on the distribution of development funds, just two pieces of information about the relevance of the topic are discussed: (i) villages with the worst position on the ‘poverty scale’ exhibited in the first section represent almost one fourth of villages; (ii) approximately half of Hungary’s villages, the dwelling place of about one eighth of the population have less than one thousand inhabitants!

When trying to contrast development needs and the extent to which these needs are met, we decided to analyse data on EU-related and domestic funds relying on the territorial information system<sup>18</sup>.

If we consider the first generation of EU development funds of 2004–2006 (with an implementation phase dragging till 2008) and compare their distribution with that of domestic resources, we have to conclude that development funds have fulfilled convergence goals unevenly. This statement is based on the analysis of relevant data along typical rural categories such as villages (in contrast with towns and cities) and the most undeveloped zones of rural peripheries (in contrast with the rest of the target areas). According to the results of the analysis, there are significant differences in terms of the “social concern” of Structural Funds themselves. In addition to this, their target areas (as well as their target groups) diverge significantly, and these aspects together determine the extent to which rural areas can benefit from them.

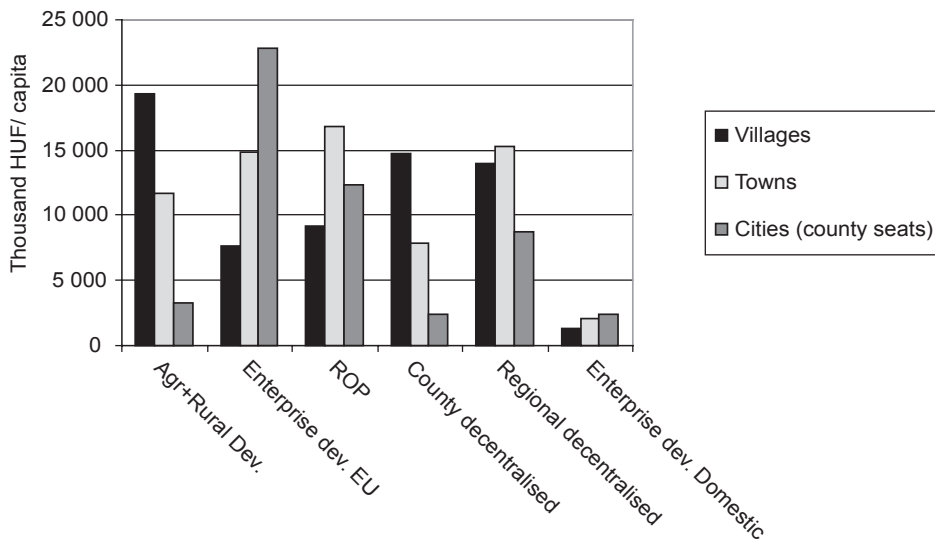
Starting with the distribution of EU and domestic funds by *legal categories of settlements*, it is not surprising that the Agricultural and Rural

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<sup>18</sup> TEIR 2002–2007. Data were analysed by Bálint Koós, my colleague in the Centre for Regional Studies. I wish to express my gratitude for his work.

Development Programme favoured villages the most; the per capita value of project proposals supported by the Guidance Section of the EAGGF between 2004 and 2006 was significantly higher than what was absorbed by towns, and much more than what was received by applicants from county seats (see graph below). The order of per capita figures was the opposite in the case of economic development funds, which benefited big cities – EU funds much more, domestic funds less. EU and Hungarian regional development funds draw different curves: EU regional development fund supported small towns the most, big cities in second place, whilst domestic funds distributed by the county development councils favoured villages the most. Similarly to the EU agricultural fund, those domestic decentralised funds distributed by the seven regional development councils supported towns and villages almost evenly.

**Diagram 3: The distribution of major EU and domestic development funds by legal status of settlements 2002–2007**



Source: TEIR, database.

It is worth mentioning that in the first post-accession phase, ESF-supported programmes targeting public services and human resource development were amongst the most centralised ones considering the location of supported projects: as few as 4% of the ESF funds shifted to villages between 2004 and 2006. As we do not have comparative data for domestic funds equivalent to

ESF-sponsored programmes, the table below can only indicate the absorption capacities of villages with regard to other funds. The results are self-evident: all EU funds favour villages less than domestic funds although there are huge differences amongst them.

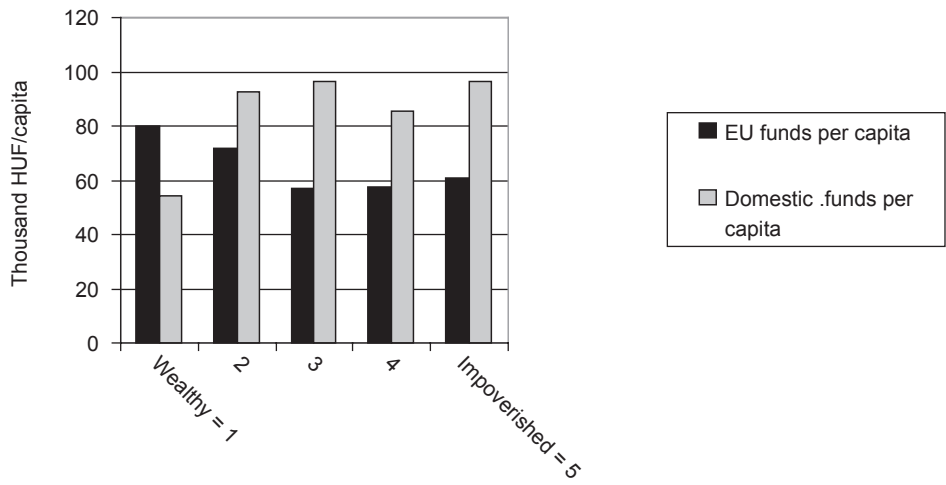
**Table 3: The absorption capacities of villages regarding development funds 2002–2007**

| <b>Denomination</b>                  | <b>EU funds absorbed by villages (%)</b> | <b>Relevant domestic funds absorbed by villages (%)</b> |
|--------------------------------------|--|---|
| (Population)                         | 33                                       | 33  |
| Distributed funds total              | 21                                       | 35  |
| Agriculture and rural development    | 58                                       | 67  |
| Entrepreneurship and competitiveness | 16                                       | 27  |
| Human Resources                      | 4  | no data   |
| Regional development                 | 25                                       | 48  |

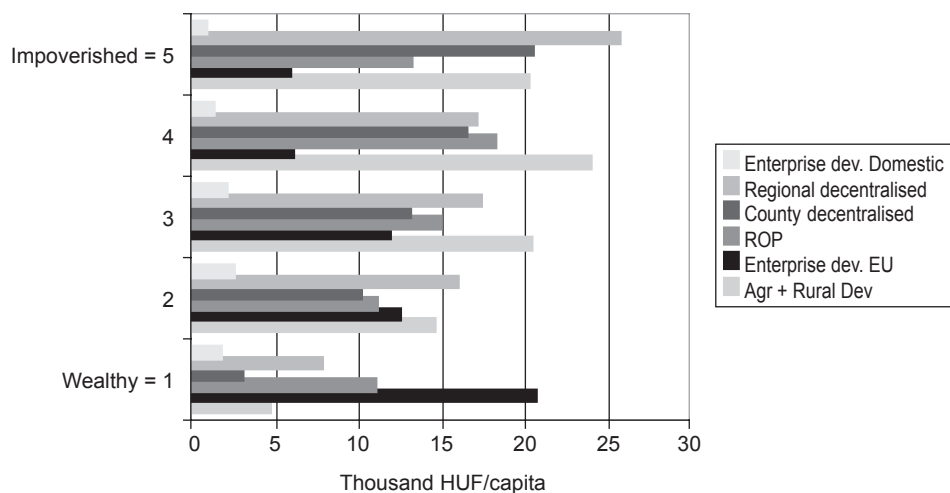
Source: TEIR, database.

Finally, if we consider the distribution of development sources along the settlement slope categorised from wealthy to high poverty-risk settlements, as introduced in the first section, we find that EU resources support wealthy settlements more than those of the ‘middle or lower class’ ones (Diagram 4), whilst the distribution of domestic funds forms a curve proceeding differently. Nevertheless, neither of the main group of funds differentiates further than between the axes of the ‘wealthy’ and the ‘non-wealthy’. This can be explained by the neutralisation effect deriving from the unification of funds, since the weak absorption capacity of economic development funds of poor villages is compensated by some ‘assistances’ transferred to the ‘needies’ and vice versa. If we consider the distribution of the same types of funds included in Diagram 4, we arrive at a similar conclusion: the rural/impoverished pole absorbs more agricultural and domestic regional development resources whilst the wealthy pole, rural and urban alike, grasps significantly more non-agricultural enterprise development funds.

**Diagram 4: The distribution of development funds along the settlement slope 2004–2006**



**Diagram 5: The distribution of development funds by types along the settlement slope**



Empirical findings of recent research on lagging rural areas implemented in the Centre for Regional Studies HAS<sup>19</sup> confirmed the results of the above analyses and warns: small settlements had hardly any chance of realising sound development projects in 2007–2008, partly because of the inadequate themes and the required project sizes of EU-related operational programmes – sized ‘for cities and micro-regions’ – partly because of the uncertainties due to radically decreased domestic budgetary resources. Regional development appropriations for example, were reduced, then reorganised, then finally, in 2010, cancelled. Due to the rescaling of the allocation competencies of development funds, potential lobbying capacities of most leaders of small-scale villages as the traditional forums of discussion shifted upwards. They felt threatened with complete exclusion from development chances and their fears were not denied by the planners. As the executive manager of the regional Development Agency in Southern Transdanubia put it in an interview: *People [in the countryside] talk about it [the ROP of Transdanubia], and they ask: What will be for us, the schools and enterprises employing two persons ... Well, the ROP will not help them.*

The picture would be far too gloomy if we do not mention a latest, ongoing programme aiming at giving chances to the most disadvantaged statistical micro regions of Hungary. In 2008, the Government launched a so-called horizontal sub-programme within the New Hungary Development Plan, called ‘New Hungary Cohesion Programme’. The Programme is relying on the Structural Funds and aimed at securing easier access to projects raised in the targeted areas within the tendering procedures via eligibility advantages and specific allowances, thus balancing their unequal chance to absorb development funds. The second generation rural development programmes, Axes 3 and 4 allocations of the European Agricultural Fund for Rural Development will generate more development potential for rural areas, including disadvantaged districts, than the first Agricultural and Rural Development Programme of the first post accession phase. The harmonisation of the two development programmes *was not worked out*, clashing interests as well as the strict demarcation rules of the European Commission did not allow to raise synergies. Nevertheless, both programmes were set in motion in 2008 signalling that the need of rural areas for complex and area based development programmes, bottom up and top down alike was perceived to some extent in the ranks of policy makers.

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<sup>19</sup> See the references listed in the Preface.

## Conclusions

The double focuses of this paper demonstrate huge challenges prevailing in the Hungarian countryside. One of the focuses revealed social and economic differentiations resulting in a sharp polarisation of rural space: regional disparities have been increasing and rural poverty appeared in rural peripheries in vast measures. The other focus examined the administrative structures being responsible for absorbing and allocating financial resources aimed both to operate institutions and to secure investment funds.

It has been revealed that until 2008 the needs of small-scale villages of disadvantaged regions and the offers of the administrative system did not match. New arrangements in the governance structures, such as a partial decentralisation of development funds and strengthened capacities at NUTS-4 level could not resolve either the inherent contradiction of the basic level of governance, or the constant absence of resources in the disadvantaged rural areas. In addition to the urban/rural divide, spatial patterns induced primarily by market forces have been shaping the present and future perspectives of rural areas. Since the system change the gap between the core and peripheral (lagging) rural spaces have become deeper and wider. This seems to be more characteristic to the Central and Eastern European Countryside, than to the more advanced part of Europe and should be targeted by specific and focused policy measures.

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