



**Organising for EU Enlargement**

A challenge for member states and candidate countries

**MULTILEVEL GOVERNANCE**

The Dynamics of EU Cohesion Policy

Regional Policy in Hungary  
Institutional Preparations for EU Accession

OEUE PHASE II

Occasional Paper 5.4 – 09.04

Attila Ágh  
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Budapest Corvinus University

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FIFTH FRAMEWORK PROGRAMME



Dublin European Institute

A Jean Monnet Centre of Excellence



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### **Organising for EU Enlargement Project**

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## **ORGANISING FOR EU ENLARGEMENT:**

Challenge for the Member States and the Candidate Countries

The Dublin European Institute, University College Dublin,<sup>1</sup> was awarded, in 2001, a research contract under the EU's Fifth Framework Programme<sup>2</sup> to carry out a comparative study of the impact of the EU on the structures and processes of public policy in six small countries: **Ireland, Greece, Finland, Estonia, Hungary** and **Slovenia**. The Project's partnership, under the direction of Professor Brigid Laffan, Dublin European Institute, University College Dublin<sup>3</sup>, includes: Professor Dr. Wolfgang Drechsler, University of Tartu; Professor Teija Tiilkainen, University of Helsinki; Professor Calliope Spanou, University of Athens; Professor Attila Ágh, Budapest University of Economic Sciences and Public Administration; and Professor Danica Fink-Hafner, University of Ljubljana.

The aim of the research project was to deepen our understanding of the processes of Europeanisation in a number of the existing member states and some of the candidate states.

The research project encompassed the following three objectives:

- The conduct of research which offers immediate policy relevance to key stakeholders in the enlarging Union;
- The conduct comparative, theoretical and empirical research on the management of EU public policy making in three existing member states – Ireland, Greece and Finland – and three candidate states – Estonia, Hungary and Slovenia;
- The shedding light on the capacity of smaller states to adjust and to adapt to the increasing demands of Europeanisation on their systems of public policy-making and thus to identify the barriers to effective, efficient and accountable management of EU business.

### **Research Strategy**

The research design consisted of two phases and within each phase, two levels of analysis. **Phase I** analysed the management of EU business at the macro level of the core executive and was complemented by a micro case study of a recent policy negotiation using decision analysis. **Phase II** of the research broadened the analytical focus to encompass other levels of government – the EU and sub-state – through multi-levelled governance. Here attention was centred upon the emergence of policy networks and the interaction between public actors and the wider civil society in specific, discrete policy sectors.

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<sup>1</sup> National University of Ireland, Dublin (University College Dublin).

<sup>2</sup> European Commission, Community Research Fifth Framework Programme (Socio-Economic Research).

<sup>3</sup> This project forms part of the Governance Research Programme, Institute for the Study of Social Change, University College Dublin, [www.ucd.ie/issc/](http://www.ucd.ie/issc/) and [www.ucd.ie/govern/intex.htm](http://www.ucd.ie/govern/intex.htm).

## **Methodology**

The study employed two specific methodologies: historical institutionalism and rational institutionalism in a new and innovative fashion. The use of combined perspectives provided a theoretically innovative and new approach to the study of the Europeanisation process. Both approaches could be used as they were applied to different elements of the empirical research.

## **Academic and Policy Implications**

This study's findings provide insight into the manner in which diverse state traditions, institutions and political and administrative cultures influence national adaptation to EU governance and how the interface between national policy processes and the Brussels arena is managed. It is expected that these findings will assist those making and managing policy, thus facilitating adjustments to the changing European Union while also contributing to the growing academic debate on Europeanisation.

At various stages during the course of this project the research findings and analysis were presented to a range of stakeholders and academics to facilitate feedback and enhance the analytical process. Further details about the Organising for EU Enlargement (OEUE) project are available on the project web site [www.oeue.net](http://www.oeue.net), along with i) the Project Report, ii) the OEUE Occasional Papers and iii) a selection of papers by the research partners which draw on various aspects their project research.

## **AUTHORS**

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Árpád Rózsás is a PhD. Student in the Department of Political Science, Budapest University of Economic Sciences and Public Administration and is associated with the 'Together for Europe' Research Centre for EU Studies, Hungarian Academy of Sciences. Various aspects of Hungary's relations with the European Union feature in Árpád Rózsás' current research on the implementation of EU cohesion policy in Hungary and the role of the core executive in the management of EU affairs. His publications on these issues include, 'Regional Policy in Hungary: Institutional Preparations for EU-Accession' in Attila Ágh (ed.) *Europeanization and Regionalization: Hungary's Preparation for EU-Accession* (Budapest: Hungarian Centre for Democracy Studies), with Attila Ágh, 'Regional Policy in Hungary', *Budapest Papers on Europeanization* No. 11, 2002 (Budapest: Hungarian Centre for Democracy Studies); with Tímea Pálvölgyi, 'The Reform of Constitutional Government in Hungary', *Budapest Papers on Europeanization* No. 5-6 (Budapest: Hungarian Centre for Democracy Studies).

## **ABSTRACT**

The task of the adoption of the *acquis communautaire* was an overwhelming one, taking into account that Hungary (together with all the post-communist countries) did not only have to tackle the problems of the preparations for EU accession but first had to transform from a state socialist country with a planned economy to a democracy with a market economy. Progress in the modernisation and democratisation of the country was made with a view to future EU accession from the time of the change of political system. One of the key factors for Hungary's success within the European Union is the country's ability to make good use of the regional support of the European Union. This paper provides an analysis of Hungary's domestic system of spatial development and that of the institutions established for the absorption of the Structural and Cohesion Funds of the EU. It can be seen that the present system of territorial management has several weak points and the reform has become inevitable in order to ensure effective functioning. The analysis revealed the advantages and disadvantages of the system of regional development and the regional administrative system of territorial organization. The other side of the equation, i.e. the successful participation of the target beneficiaries, is however unknown as yet, and no predictions can be made about the rate of success or failure.

## **INTRODUCTION**

Hungary along with nine other countries is joining the EU on 1 May 2004. With the successful accession, a 14-year process is coming to its end, during which time the country has made a complete transformation from a communist state with a planned market economy to a democratic republic with a fully functional market economy. The history of the PHARE programme of the European Union reflects the two different phases of Hungary's preparation for full membership. The first phase from 1989 to 1997 comprised tasks related to general democratisation, the establishment of basic institutions of the market economy and public administration, with funds of EUR 787.5 million. In the second phase from 1998 to 2004 PHARE support was used for the programmes that were directly related to the adoption of the *Acquis Communautaire* in Hungary. Attila Ágh (Ágh, 2003a: 16) terms the two phases as the periods of anticipatory and adaptive Europeanisation respectively, referring to the different types of tasks. In the period of adaptive Europeanisation, one of the key areas of preparation for the EU within the public administration was the preparation for the EU's regional policy. The European Commission continuously monitored Hungary's progress in this field and exerted considerable pressure on the country to develop its regional administrative capacities (Brusis 2001: 12 or for the detailed debate see Fowler, 2002; Hughes et. al., 2003). This necessitated on the one hand the partial restructuring of the country's territorial organisation, and on the other hand the establishment of new institutions for the management of EU regional funds (see 1. Table).

The government of Péter Medgyessy took office on 27 May 2002. As discussed later in detail, the new government brought about basic changes in the philosophy of the central government regarding regional policy. The electoral programme of Fidesz (the governing centre-right party in 1998-2002) contained a correct analysis of, and a commitment for, regionalisation according to the EU requirements already in 1998. However, later they turned against decentralisation and stopped all efforts for establishing fully empowered regions. This changed basically with the government of Péter Medgyessy. The Government Programme, approved by Parliament, contained plans for decentralisation and the establishment of self-governing 'strong regions'. The reform of public administration started in the summer of 2002, parallel with the preparations for accession to the EU. This process was also delayed under the Orbán government, especially the institution building for the reception of EU financial assistance.

The pace of change is different in the reform of public administration from other institution-building projects. The creation of politically strong regions with elected Regional Assemblies, Regional Governments and own financial resources is a lengthy process and requires interest reconciliation and agreement on several political and administrative tiers. Thus, it may take several years to finally complete this process, and until then one can only speak about partial results and interim situations. It is different in the case of the institutions necessary for the absorption of EU funds. When establishing these structures, the experiences from the pre-accession funds can serve as a good point of departure in terms of both human resources and

procedural skills, and thus the structures can be created more quickly, until the accession at the latest.

As mentioned earlier, this study intends to provide an overview of Hungary's preparations for the EU's regional policy instruments, which means that one has to report about a rapidly changing environment. Hence, the description of structures and processes may be subject to changes even after accession, as the implementation of regional policy measures starts. The study consists of three chapters. The first one contains a historical analysis of the development of Hungary's territorial restructuring at the change of the political system and the system of spatial development, including the formal creation of the NUTS-II regions in 1996. The second chapter provides an overview of the Hungarian National Development Plan, prepared for the budgeting period 2004-2006, while the third deals with the most important institutions necessary for the absorption of the EU Structural and Cohesion Funds.

## **TERRITORIAL RESTRUCTURING FOLLOWING POLITICAL CHANGE [THE CONSEQUENCES]**

### **The system of local self-governments**

Hungary has a long tradition of being a centralised state. This was especially valid for the communist system, in which all policy issues were decided in the party centre. For the territorial organisation it meant that the meso and the local tiers of government had very limited power and were simply the "subordinates" of the central tier. The meso-tier of state administration was the county, which played the role of regional authority and implemented the decisions of the central government at the lower tiers, as well as performed some redistributive functions. Towns and villages had no self-governments and were subject to the redistributing decisions of the county councils both legally and financially. (See Pálné et. al., 2002: 8-15.)

When the change of the political system started in 1989, debates over public administration and local government focused on the county. The settlements were deeply dissatisfied with the former redistributive practice of the authorities at the intermediate (county) tier, which were simply seen as 'delegations' of the central government and the major 'bastions' of the communist party, and thus "deeply discredited, [and they became] the target of the fiercest criticism after the collapse of the regime" (Illner, 2001: 19). Therefore already in the course of the opposition roundtable negotiations of the change of the system it became obvious that the territorial organisation of the country had to be restructured. There were three major concepts for the possible future role of the counties (Navracsics, 1996: 280). First, the establishment of self-governing, strong counties, which could provide regional public services upon the interests of local governments and take part in spatial development. Second, the counties could remain meso-tier entities for maintaining regional public institutions only. Third, the counties would operate only as executive entities for performing governmental functions and public administration but without being self-governments. The major argument for the last two concepts was that "with the abolition of [Soviet-type] county councils, the overall state authority and political role of the county should also be eliminated. [...] [T]he new definition of governmental functions made most of the duties of the county superfluous, and local governments – individually or in association – could perform the ones that remained." (Navracsics *ibid.*)

The debates over the proposals took place in the summer of 1990, in the first freely elected parliament. To provide a full picture of the discussion, besides the dissatisfaction at the local tier Martin Brusis (2002: 15) also emphasises another political element, namely distrust towards the county tier at the central tier, as "the new democratically elected governments [in 1990] perceived regional-level administrative bodies as relics of authoritarian rule." The governing parties (Hungarian Democratic Forum, Independent Smallholders' Party, Christian Democratic People's Party) wanted to establish strong, directly elected self-governments for the counties to make them more legitimate, whereas the opposition parties (Alliance of Free Democrats,

FIDESZ and Hungarian Socialist Party) opted for the latter two options and tried to weaken the counties as much as possible. As the Act on local self-governments had to be passed by a two-thirds majority of the members of parliament, finally a compromise was reached between the parties<sup>4</sup> (for a detailed analysis of the political debates of the territorial reforms in Hungary see Fowler, 2002).

Act LXV of 1990 on Local Self-Governments introduced a mixed system of the above concepts, and it focused on promoting strong local democracy with strong and independent self-governments on the local tier. The Act established the legal basis for local self-government of "the village, the town, the capital city and its districts as well as that of the county", and declared that it "acts independently in the public affairs of local interest, belonging to its sphere of duties and jurisdiction". Thus the counties were given self-governments and some functions of public administration but they lost their fund-allocating rights regarding the lower tier, along with their role in regional development. Other types of local self-governments (altogether more than 3,000 settlements) were legally on equal footing with the counties without any hierarchy between them. All this implied that the role of the counties as public service providers was territorially limited: they could provide services exclusively outside the territory of local self-governments. (See Table 2 for the number of territorial units in Hungary.)

Besides county and local self-governments, there was a third, mixed type of self-government defined by the Act: the town with county rights. This form of settlement was not new to the system, as cities with such rights had been part of the territorial organisation before the change of the system, but only the largest cities were granted these rights. The Act on Local Self-Governments, however, considerably lowered the population limit to 50,000 inhabitants, and the representative body of any town with a population exceeding the limit could request the parliament to declare it as a town with county rights. These cities were considered of the same tier as the county self-governments, and this had two important consequences for the legal status. First, they were excluded from operating the county assembly, and secondly, these cities had to perform all county-tier public services (health care, secondary schooling etc.) and could not ask the county to take over any of their duties (duty delegation) even in case they became unable to fulfil them. However, if the town with county rights considered its service-providing capacity adequate, it could take over performing public services from the county on areas lying outside its territory (usually the outskirts of the city).

This mixed up settlement structure led to three major conflicts between county self-governments and towns with county rights (Navracsics, 1996: 284). There are several counties with more than one such cities, which were excluded from participating in the county assembly.

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<sup>4</sup> Brigid Fowler (2002) provides a detailed analysis of the political debate that surrounded the sub-state reform of Hungary.

This caused distortions in county decision-making, even though the towns with county rights and the respective county self-government were obliged by law to establish a committee for coordination. Secondly, as mentioned above, towns with county rights could claim to provide certain services in the vicinity of their territory. This meant that they became rivals of the counties in fulfilling territorial services (and therefore in obtaining public funding for the given services), and led to debates over property as well. Finally, the consequence of the above conflicts was that coordination and co-operation were rare phenomena between counties and towns with county rights.

Besides declaring their legal independence, the Act on Local Self-Governments also created the economic basis for the operation of local self-governments. As defined by the Act, local self-governments (including county self-governments as well) had exclusive rights over their property,, incomes and budget. Their own incomes flew from local taxes (for local self-governments of settlements only), local environmental fines and other fees, and from the utilisation of their property (rent or later increasingly from the sale of real estate). The types and maximum rates of taxes levied at local tier were determined by the parliament but local self-governments were entitled to decide upon the actual rates and the way the taxes were collected. Besides their own incomes, local self-governments were granted a proportion of certain central taxes, namely of personal income tax collected from their territory (100 per cent in 1990, 50 per cent in 1991 and 1992, decreasing to 10 per cent by 2003), as well as 50 per cent of the tax levied on cars.<sup>5</sup>

However, the major source of income for local self-governments was granted from the central budget: the "normative budgetary contribution" and the "supplementary subsidy" (Verebéliyi, 1999: 321). The normative contribution was granted by the parliament annually from the central budget on the basis of population or other indicators (thus enabling the planning of incomes), and local self-governments were entitled to freely decide upon the use of these funds as long as certain services were provided. The other income type, the supplementary subsidy was, however, different from the normative contribution. The parliament was entitled to define "socially prioritised targets", and provide subsidies to facilitate their fulfilment. Thus, any local self-government could be granted supplementary subsidies if it met the requirements set by the parliament, but it was obliged to spend the subsidy on the defined target task. There were three major types of supplementary subsidies. The first was the funds for targeted investments of local self-governments. These could be claimed for costly but necessary investments the local self-governments had to make. The second was the supplementary budget subsidy for the settlements, which were "being in a disadvantageous situation through no fault of their own". It meant that any local self-government of settlement was entitled to supplementary state funding

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<sup>5</sup> For a detailed description of incomes of local self-governments see Verebéliyi (1999), pp. 321-335.

if it became 'bankrupt' during the budgetary year. The third and final type of supplementary subsidies was the centralised target subsidy, which was related to crucial self-government public services whose users and necessary capacities were not known in period of budgetary planning.

### **Organs of central government on the meso-tier**

The final element of regulations relating to territorial organisation of public administration was the introduction of the Commissioners of the Republic into the territorial system in January 1991. The eight Commissioners were representatives of the central government and their duty was to ensure the legality in the operation of local self-governments in their regional competence, as well as to co-ordinate the local organs of the central government (usually of ministries). The creation of such an institution was a milestone in the history of Hungary's public administration as this was the first instance that regions were defined. However, the new institution was not based on professional ground or lines of public administration, it served the realisation of the goals of the central government. It was the coordination role of the Commissioners that raised concerns regarding the purely administrative role of the institution, and it was feared (as it actually did happen) that the persons in charge would use the ambiguities of legal regulations and use the post to increase their power and promote centralisation.

Besides the Commissioner of the Republic, there were several other organs of the central government, which started operating on the meso-tier shortly after the introduction of the new self-government system. These organs were the "centrally subordinated organs of public administration, or as they [were] frequently referred to, deconcentrated organs" (Navracsics, 1996: 287). Some of these deconcentrated organs (or decos) were already present before 1989, but it was the change of the system that brought about their proliferation. They appeared in various forms depending on the type of task that had to be performed but they all belonged under the authority of the central government, usually owned and operated by the ministry responsible for the given policy field. The political reason behind their establishment was that the ruling parties elected in April 1990 lost the local elections held in October, and the government wanted to gain control over as much policy fields as possible. Navracsics (1996: 288) points out that strangely enough it was the liberal regulations relating to local self-governments that contributed to the creation of the decos. The Act on Local Self-Governments provided absolute independence for local entities in theory but in practice the definition of 'local issues', which exclusively belonged under the authority of local self-governments, was undefined. Therefore local self-governments could not prevent the establishment of a wide range of deconcentrated organs.

The major consequences of the proliferation of deconcentrated organs of the central government were the following (Navracsics, 1996: 288-289). There was no real coordination over the decos, as Commissioners of the Republic could not exert much pressure and even gave up this effort after a short period. As a consequence, the sectoral logic of the deconcentrated

organs came into conflict and even disintegrated regional administration. Also, the decos often performed tasks that could have been executed by the local (especially county) self-governments. The logic of bureaucracy played a role in these consequences too, as an institution once established always attempts to gain more power and thus more funding to justify its existence. In addition, some kind of a 'notion of supremacy' was also present in the behaviour of the decos, meaning that local authorities lacked the funds,, expertise and/or experience to fulfil the given functions. Lack of coordination was excessively problematic on certain policy fields where the decos, local self-governments and Commissioner of the Republic had shared competencies (such as construction, environmental protection and so forth).

### **Changes in 1994**

The second free elections brought about a change of government, and the Hungarian Socialist Party and the Alliance of Free Democrats formed a coalition. Based on the government programme, the Second Parliament amended the Act of 1990 on Local Self-Governments in summer 1994. The amendment was intended to strengthen the county tier. The act now described the county self-government as regional self-government, and to provide further political legitimacy, introduced direct elections for the seats in the assembly of the county self-government. This did not bring along a hierarchy between the county and the self-governments of settlements but rather helped decrease the defencelessness of the county, as before the amendment any settlement self-government was entitled to unilaterally take over a public function from the county. The new regulations made a clearer distinction between the services provided by the county and the settlement self-government. Transfer of maintenance of public services was still possible but rules were determined as what were the circumstances under which such a transfer could be made.

The amendment abolished the much-disputed system of Commissioners of the Republic, and County Public Administration Offices were established in each county and the capital in December 1994. These Offices took over the duty of exercising legal control over the operation of local self-governments. The reason for the abolition of the Commissioner-system was that during the years the Commissioners deviated from their original function of being legal control over local self-governments, and began to play rather a political role as 'distant arms' of the central government. The new Public Administration Offices, on the contrary, were free of any political role. They were operated by the central government from the central budget, and belonged under the authority of the Ministry of the Interior. They received extended competencies for the legal overview of local self-governments to be able to exercise legal control more effectively. Although these changes did not lead to a realignment of power on the meso-tier, the efficiency of institutions was made better. However, the amendment did not concern the system of deconcentrated organs, which experienced only minor changes. Some of their functions were transferred to local self-governments or to the Public Administration Offices, but no considerable reductions were realised in the number or competences of decos.

### **Operational deficiencies of system of local self-governments**

First of all, the financial plight of local self-governments became unstable by the end of the 90s. Due to the financial recentralisation that took place during the last 14 years (and especially under the Orbán government starting in 1998), the funding of local self-governments decreased whereas the tasks to be performed increased significantly. The proportion of personal income tax, given back to the local self-government from whose territory it was collected, decreased from the original 100 and then 50 per cent to 10 per cent. Also, the government calculated indicators for 'tax-power capability' as regards how much local taxes a local self-government was able to levy, and the higher this capability was, the less normative funding the settlement received from the central budget. However, this calculation was not transparent and a study prepared by Zoltán Pitti (2003: 11) for the IDEA public administration reform project points out that "the practice of mitigating the normative state subsidies, without control, with reference to tax-power capability calculations, cannot be maintained." It also became practice that the parliament (upon the proposal of the government) increased the share of funding which could be used exclusively for predetermined goals. The local self-governments thus received a large number of new tasks to perform, whereas the funding for the given task was often insufficient (or sometimes even non-existent, Pitti, 2003: 10). All this compelled the local self-governments (whose largest item of expenditure, about 40-45 per cent of their budget, was wages) to raise their funds by selling real estate property. Those, that had no property left for sale and became unable to perform public services (i.e. usually simply went bankrupt) were entitled for supplementary funding from the central budget, namely from the fund for settlements "being in a disadvantageous situation through no fault of their own".

However, in my opinion, this fund cannot be considered as only 'supplementary', for about at least one third of local self-governments were in such plight in 2003 (Ön-kor-kép, 2003: 8). The financial difficulties concern not only settlements. Pitti (2003: 12) has also pointed out that besides settlements, "during the years 1990-2002 most of the counties depleted all available reserves and, in case of an under-financed normative support, the institutional budgets cannot be supplemented and the institutions themselves cannot be operated according to professional requirements." Hence, by now not only the source of local (own) incomes is problematic but even the normative funds granted from the central budget prove insufficient, which means that the entire system need be reformed (Pitti, 2003).

The second problem of the system of local self-governments was also partly related to finances. As mentioned above, the Act of 1990 on Local Self-Governments focused on the establishment of a strong local tier. The result, however, was the complete fragmentation of the system. More than 50 per cent of the settlements have less than 100 inhabitants. On the other hand, due to the strong legal grounds for independence, in effect there are 3,200 'small republics' within the Republic of Hungary. To remedy the problem of fragmentation, Act XXI of 1996 on Regional Development introduced the so-called 'small-region' as "a unit of area which can be delimited on the basis of the totality of functional relationships between communities, the aggregate of self-

organized adjacent communities maintaining intensive relationship with each other” (Act XXI of 1996). Thus settlements had the right to voluntarily establish associations to perform certain public services. However, these associations were of various kinds and did not comprise a homogenous tier of similar entities. Consequently, in several instances, settlements proved to be too small to operate as administrative or economic entities.

## THE DEVELOPMENT OF HUNGARIAN REGIONAL POLICY

### The Hungarian system of spatial development

As it can be seen from the above, the restructuring of the territorial system of Hungary at the change of the system focused on the local level, aiming to ensure complete legal independence of self-governments of settlements. However, due to the several reasons already discussed, much less attention was paid to the operational efficiency of the new system or to the integrating function that the non-existent meso-tier should have fulfilled, namely spatial development<sup>6</sup>.

The Commissioners of the Republic had no competence regarding spatial development, and there was no central or regional organ to co-ordinate this function between the territorial units and tiers of governments (central – regional (county) – local). The function of spatial development was first regulated only very vaguely in Act XX of 1991 on Competencies of Local Self-Governments, where there was only a reference to the issue, placing it under the shared competence of the central and county level local self-government. In the 1994 amendment of the Act on Local Self-Governments another reference was placed with the commitment of the legislator to address the issue of spatial development in another act. It was the Act XXI of 1996 on Regional Development and Regional Planning that established the new system of spatial development. The Act was amended in 1999 and in 2002 when operational changes and a slight modification of the system was introduced. The Act, however, laid down the basic institutions of the existing management system of spatial policy in Hungary.

By the time of the passing of the Act, EU integration gathered pace and the European Commission started to elaborate its Avis on Hungary. It became clear that Hungary had to start adapting to the regional policy of the EU, which meant that the so far missing 'EU-type' (NUTS II type) regions had to be created. Hence, the impact of the Act was twofold. On the one hand, it established NUTS II type regions in Hungary with a view to the expected accession to the EU; on the other hand, it introduced a new system for managing spatial development. The regions created were only so-called 'statistical-planning' regions, i.e. not administrative or self-governmental regions but only an 'aggregate' of the counties without any administrative role save that of spatial planning. Another sign of the weaknesses of the regions was that their establishment was not mandatory but counties had the rights to create voluntary associations. Ágh (2003a: 121) rightly points out that "[t]he regions first existed only on paper and were still 'illegitimate'. Actually they were only deconcentrated organs of the central government and supposed to manage only the resources coming from above." However, once established, the

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<sup>6</sup> Due to the wording of the official translations of Hungarian laws, I sometimes will refer to spatial development as "regional development". In this case the adjective "regional" means any kind of territorial unit, not only regions (in the NUTS II sense or as county of Hungary).

participants had to form Regional Development Councils with the tasks determined by the Act. The 1999 amendment of the Act brought about a basic change, when it stipulated that the establishment of seven regions was mandatory. The amendment further defined the duties and competence of regional development councils.

However, in the new system of spatial development as introduced by the Act, the other new elements were the National Regional Development Council (NRDC) and the County Regional Development Councils (CRDCs). In order to reflect the consensus-based manner of decision-making, the NRDC consisted of a wide range of actors including the representatives of the county development councils, the chairpersons of the economic chambers, the representatives of the National Interest Reconciliation Council and the representatives of several ministries (i. e. the central government). However, the NRDC had no right to decide on development plans or projects, and its major functions were to co-ordinate the development plans and to make proposals for the government and the parliament.

Besides establishing the rather weak regions, the Act created a stronger meso-tier based on the counties with the establishment of the County Regional Development Councils. The major task of the CRDCs was to co-ordinate the spatial development duties in the given county. Their membership was similar to that of the NRDC: chairman of the County Assembly, representative of the minister in charge of spatial development, representative of the regional economic chambers as well as one representative of each statistical area of the associations (small regions) of the county and the towns with county rights. The membership of the CRDCs comprised a wide range of actors, to eliminate the lack of the integrative meso-tier. The CRDCs brought together the representatives of the interested parties, including the central government, local self-governments as well as representatives of the civil sector. It also sought to solve the problem of towns with county rights, as the CRDC served as a forum where both the county self-government and the towns with county rights could come together and make common plans for spatial development.<sup>7</sup> However, the CRDCs had no incomes of their own, their task was to co-ordinate the funds provided centrally by the government and parliament. In addition, only 10 per cent of the funds provided by the central budget for spatial development was actually channelled through the CRDCs (Verebélyi, 1999).

Spatial development policy at the NUTS II level was formulated by the Regional Development Councils. These were only aggregates of the CRDCs but they originally still comprised a considerable proportion of their membership from the civil sector. This changed with the amendment of the Act on Regional Development in 1999 when the civil members were excluded from the operation of the council and their places were taken over by representatives of the central government (through ministries). Thus the government gained majority in the bodies,

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<sup>7</sup> One should keep in mind that the towns with county rights were excluded from the County Assembly, and thus were unable to participate in policy decisions on the county tier.

reducing the decision-making processes to simple decisions by the central government, as well as denouncing the principle of partnership. At the time of its establishment, each Regional Development Council set up its working organisation, the so-called Regional Development Agency (RDA). The RDAs were supposed to efficiently execute the decisions of the Regional Development Councils, and to provide the basis for the future implementation of EU regional policy. However, their funding was too low and besides the lack of physical assets there was also a lack of qualified staff.

### **Operational problems: lack of legitimacy and efficiency**

The 'nationalisation' (or 'centralisation') of the Regional Development Councils by the central government in 1999 brought about a serious lack of legitimacy of these bodies. This, however, was not an isolated phenomenon under the Orbán government as "in its majoritarian drive it opposed all kinds of decentralisation" (Ágh, 2003a: 119)<sup>8</sup>. The European Commission expressed its concern in its Regular Reports not only regarding this lack of legitimacy (which was actually contrary to the partnership principle of EU cohesion policy) but also regarding the lack of institutional capacity at the regional level. On the basis of the experiences of the Hungarian system of spatial development so far, there are several problems to point out (for a detailed analysis see Pálné, 2003b).

As already discussed above, one of the greatest deficiencies of the 1990 Act on Local Self-Governments was the lack of regulating the meso-tier and the weakening of the counties. However, during the time since the systemic change, it turned out that the greatest threat for the independence of local self-governments was not the county but rather the lack of expertise, sufficient funds and of co-operation, and dependence on the central government and its deconcentrated organs. The Act of 1996 on regional development established a system parallel to the existing system of local self-governments. This duality is not unknown in the EU Member States but the reasons for the dual institutional arrangements are completely different: there the separation of the institutions ensures the efficient operation of regional policy independent of the institutional capacities of local public administration. To the contrary, in Hungary the duality of the system resulted in the development of regional policy into a sectoral-type policy instead of an integrative one, increasing the lack of co-operation. The separation of spatial development also led to a highly elitist system where the few people who are involved in managing the quite limited resources possess a great amount of informal power (also with the help of the many overlapping posts in the system).

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<sup>8</sup> The part of the 1999 amendment, which was related to the membership of the RDCs, was withdrawn by the Medgyessy government as early as 2002, and the partnership principle is taken fully into account by now, which means that the representatives of the central government are a minority in the council. The government's plan for the future is to completely remove the representatives of the central government from the operation of the council, leaving only a veto option.

The overlapping of functions in the system of spatial development is a typical problem. The Act of 1996 on Regional Development and its amendment established several structures but without making clear the competences: each level (regional, county, small region) was assigned the tasks such as planning, allocating funds and coordination. The territorial fragmentation naturally led to the fragmentation of resources at all levels. One of the major conflicts of Hungarian regional policy and EU regional policy is that in Hungary the instruments of the policy served mainly to transfer funds territorially equally to all target beneficiaries, somehow 'equalising' between the players, thus eliminating the advantages of the concentration of resources. On the contrary, EU regional policy tends to focus its resources (as flowing from the principle of concentration) to increase the potentials of the target beneficiary to develop on its own way. Hence, the over-fragmentation of territorial levels together with the ambiguity of regulations led to the fragmentation of resources and finally lack of effectiveness of the policy<sup>9</sup>.

As a consequence of the above problems, the system is one of the major obstacles of the development of an effective regional policy. The elitist type of management and the lack of sufficient funds led to an improper amount of physical assets and high fluctuation of staff. This means that the opportunity of almost a decade was wasted instead of investing into the training of a high key team of experts who could make immediate use of EU funds right after accession. As the RDCs were entitled to establish the RDAs on their own, these institutions vary to a great extent on the national level as regards their size, funding and personnel. The high fluctuation of staff results in the lack of stable expertise and reflects the lack of stability of the careers achievable in this policy field. This instability is due also to the over-politicised character of the system. Even though party politics appears only through the regional political representatives (chairman of the county self-government etc.), the management is over-politicised in practice. For instance, it became general under the Orbán government that after the central government obtained majority in the RDCs (after the amendment), the ministries participating in the RDCs did not send their employees as representatives but rather a local party member. Thus party politics appeared in more and more bodies of spatial development policy.

### **The Hungarian public administration reform project: IDEA**

As the accession of Hungary to the EU was getting closer and closer, more and more the need emerged to deepen the democratisation process through political decentralisation that would create at the same time a territorial structure suitable for co-operation with the EU, including the absorption of Structural Funds by the proper NUTS-II (regions) and NUTS-IV (districts) units. The IDEA public administration reform project has been organized by the social-liberal Medgyessy government (2002-2006) for the realisation of the government programme aiming at the creation of elected and self-governing regions until 2006. Although the IDEA reform

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<sup>9</sup> For instance, several measures of this type of regional policy may meet the public policy requirements of efficiency (efficient use of the support, e.g. the buildings will be properly and cheaply built) or efficacy (the primary needs of the settlement or territory may be solved by the new school) but will never meet the requirement of effectiveness, i.e. it will probably not contribute to the boost of local development potentials.

project focuses on establishing fully powered 'legislative' regions, basically the project itself is concerned with the comprehensive reform of the Hungarian public administration as a whole, since the establishment of the strong regions through political decentralisation presupposes also the transfer of competencies and finances from the central government to the regions; the re-organization of the counties (NUTS-III) and the organization of districts (NUTS-IV). The name of the project indicates this comprehensive character of the public administration reform: IDEA is an acronym for Integration, Decentralisation, European Union and Autonomy, expressing the entire public administration 'worldview' of the Medgyessy government.

Responding to the challenge of the EU accession, the Hungarian government has formed two Departments in the Prime Minister's Office. The first has dealt with the National Development Plan elaborated for the EU and the second one with the finances of territorial development in Hungary. As a third actor, the Ministry of the Interior has been charged by the new government with the comprehensive public administration reform. These three actors have been cooperating in these complex processes of the public administration reform combined with the modernisation and Europeanisation of the institutions for territorial development. The Medgyessy government took office on 27 May 2002, and the Minister of the Interior Mónika Lamperth established the IDEA project in early June 2002 by appointing Attila Ágh, Professor of Political Science as president of IDEA.

The IDEA project began its working in early September 2002, with György Wiener (MP of the Hungarian Socialist Party) as co-president and by establishing its Secretariat, attached to the Ministry of the Interior and located in the Hungarian Institute of Public Administration. The project has not initiated new research on public administration so much, since there has been an extended literature on this topic with a big innovation potential, but as a project aiming at the realisation of the government programme of political decentralisation, it has developed its profile as making a feasibility study and preparation for legislation. The IDEA project has been articulated in three tasks and in three working groups concerned: the first group led by Tamás M. Horváth deals with the regions, the second one, led by Jenő Németh, with the districts, and the third one led by Zoltán Pitti with the public finances reform in the field of public administration.

The three working groups were supposed to conclude their work by the end of the year 2003 with a final report in their given field that enables the IDEA to present the bills for the public administration reform to the government and the parliament by the early 2004. If the parliament passes this package act in 2004, the way is opened for the regional tier elections in 2005, and the autonomous regions will be ready until 1 January 2007, when the EU starts the new budgeting cycle and when, according to the requirement of the EU the Hungarian regions will be autonomous actors applying for Structural Funds. One has to note that this legislation as a package of acts presupposes in Hungary the amendment of the Constitution, therefore it needs a two-thirds majority in the parliament, which means that consensus is needed between

government and opposition; otherwise the whole reform project will fail.

If the IDEA public administration reform project succeeds, then Hungary will have a major step ahead in the Europeanisation of its institutions, articulated completely according to the NUTS system. There will be NUTS-II tier regions, elected and self-governing with their own budgeting and territorial development agencies; NUTS-III tier counties with maintaining institutions in health care, education and social policy on that tier; NUTS-IV tier districts with a complex system of institutions, embracing territorial development agencies, self-government public service functions and public administration offices. This would bring about modernisation and democratisation of the Hungarian polity as a whole, enabling Hungary to use its resources optimally in the EU and facilitating the competitiveness of the country as well as its above-described territorial actors and units.

## **PREPARING FOR EU REGIONAL POLICY**

### **Preparing for EU regional policy**

In a recent study Phedon Nikolaides (2003) provided a definition of "effective membership" in the European Union, as an achievable goal for a member state if it wants to take all benefits available through membership. In his arguments, a key element of successful membership is the ability to "maximise the absorption of EU funds". In order to ensure the capacity necessary for effective use of the Structural Funds and the Cohesion Fund, the Medgyessy government boosted the process of institutionalisation, which has become a central issue in Hungary's preparation for EU membership. This meant, on the one hand, finishing the National Development Plan and the corresponding Operational Programmes as soon as possible, and on the other, the establishment of the institutions necessary for successful management. The following sections describe the institutional arrangement as well as the implementation of the partnership principle in practice, the monitoring and evaluation process of projects and finally, the financial management of funds.

## **THE NATIONAL DEVELOPMENT PLAN**

### **General overview**

The above-mentioned European Council Regulation 1260/1999 stipulates that the underdeveloped regions and Member States (whose GDP per capita is below 75 per cent of the EU average), in order to be eligible for the financial assistance of the Structural Funds, have to prepare a National Development Plan (NDP), which contains their development strategy and priorities. The development objectives of the NDP may be accomplished through large projects and support frameworks. These frameworks, which are prepared on a regional or sectoral basis, are called Operational Programmes (OP). The NDP and the OPs must be drawn up taking into account the already discussed principle of partnership. There should be detailed analyses in the NDP that the measures laid down will provide measurable outcomes and will facilitate the accomplishment of the societal and economic objectives of the programmes. A Master Plan for the establishment of an efficient and transparent institutional system for the implementation, monitoring and control of the OPs also has to be drawn up.

When the NDP is ready, it is sent to the European Commission for approval. The European Commission evaluates the NDP, and prepares the so-called Community Support Framework (CSF), which contains the financial obligations of both the EU and the Member State related to the Member- State development programmes of the given EU budget period. The detailed descriptions of the actual projects must be prepared until September 2003.

### ***Components of the national development plan***

The NDP is not an extensive plan but rather a comprehensive concept containing the plans for the use of the financial assistance available to Hungary through the Structural Funds and the Cohesion Fund. When preparing the NDP for the years 2004-2006, another important aspect must also be taken into account: the development ideas of the plan should match to or even

serve as the bases for the development objectives of the second Hungarian NDP for the period 2007-2013, when more EU funds are expected to become available. The NDP and the OPs contain only those objectives to which Hungary desires to use EU funding. The NDP development plans, thus, also have to be adjusted to the general development policy of the government. When preparing the NDP, the OPs and priorities, this aspect was taken into account to a large extent so that the EU-financed development projects match the Medium-Term Economic Policy Programme.

The NDP consists of several parts: it begins with a Situation Analysis, which is followed by the description of the strategy and priorities of the NDP, an analysis of the coherence and consistency of the strategy, and the financial plan. Major elements of the NDP are the descriptions of the OPs. Hungary prepared four sectoral and one regional development operational programme for the years 2004-2006.

The Situation Analysis of the Development Plan describes in detail the conditions of the Hungarian economy and society, points out the key issues and examines the causes of problems. The SWOT-analysis highlights Hungary's strengths and weaknesses, opportunities and threats. The long-term objective of the Hungarian National Development Plan, i.e. improvement of the quality of life and its general objective for the given period, i.e. reduction of the significant lag in the per capita income compared to the EU average, are defined on the basis of the analysis. There are three specific objectives supporting this main objective: more competitive economy, improved use of human resources and promotion of a better quality environment and regional development.

The National Development Plan intends to achieve the specific goals through four development priorities:

- Improving the competitiveness of productive sector,
- Increasing employment and the development of human resources,
- Providing better infrastructure and cleaner environment,
- Strengthening regional and local potential.

The measures defined in order to achieve the above goals are implemented in the framework of *5 Operational Programmes*. It is necessary for implementing the objectives of the NDP that the individual development projects of the OPs should supplement each other and that they are implemented in an integrated fashion, using synergy effects. This way one can prevent the fragmentation of development and a considerable effect may be achieved in the target area to

be supported.

The *Economic Competitiveness Operational Programme* (ECOP) intends to improve the general competitiveness of the economy by supporting investments aimed at modernisation in the manufacturing sector, and will increase social cohesion and employment through technical modernisation of small and medium-sized enterprises and support to their innovation networking activities, as well as passing on up-to-date management skills. It will promote economic innovation by supporting competitive research in the Hungarian R+D sector financed publicly and privately, as well as strengthening relations between the R+D sector and the economy. Another objective of the Operational Programme is to support the development of an electronic economy concerning infrastructure and digital content, as well as electronic administration.

The objective of the *Human Resource Development Operational Programme* (HRDOP) is to increase the rate of employment and improve the competitiveness of the workforce by providing qualifications in line with the demand of the labour market and promoting social integration. The priorities of the OP include support to active labour market policies, development of training and education in the framework of the life-long learning policy, improvement of adjusting capabilities and entrepreneurial skills, as well as development of health, educational and social infrastructure related to human resource development.

As its title also indicates, the *Agricultural and Rural Development Operational Programme* (ARDOP) has identified the objectives of modernisation of, and more efficient, agricultural production by developing production technologies and processing of products (especially food processing). The other aspect of the programme includes realignment of rural areas and finding alternative sources of income for the rural population, development of rural infrastructure and services, protection of rural cultural heritage. Part of the rural development measures will be financed from the national budget.

In line with the development financed from the Cohesion Fund, the *Environmental Protection and Infrastructure Operational Programme* (EPIOP) has set an objective to improve the environmental conditions of the country by establishing environmental infrastructure, increasing environmental safety, and investing into nature conservation. It also aims at investing into the improvement of transport infrastructure by building motorways and bypasses around large cities.

*Operational Programme for Regional Development* (OPRD): the overall objective in regional development is to promote a balanced regional development. The efforts aimed at this comprehensive goal set the direction for development policy. The different regions with their various socio-economic features develop in different development routes particular to each region but in harmony with one another, while regional disparities are mitigated and the country

becomes organically linked to the European spatial structure.

## **INSTITUTIONS BUILDING FOR EFFECTIVE MANAGEMENT**

### **Managing Authorities: the National Development Office and other MAs**

After the change of government in May 2002, the Prime Minister's Office (PMO) regained its central role in managing EU affairs. This was reflected in the fact that the institutional structures for programming and managing the Structural Funds and the Cohesion Fund were re-defined. Between December 1997 and May 2002 the pre-accession programmes were managed by the EU Assistance Coordination Secretariat in the PMO. The Secretariat was also responsible for the implementation of the New Orientations of Phare, which brought about far-reaching institutional changes, including the establishment of the National Fund (discussed in detail later in this chapter, as a unit of the Paying Authority), the creation of a Central Finance and Contracts Unit (CFCU), the phasing out of earlier Programme Management Units and the revision of the procurement rules for Phare, i.e. the introduction of the Practical Guide for PHARE, ISPA and SAPARD.

In May 2002, the Secretariat for Assistance Coordination was incorporated into the newly established *Office of the National Development Plan and EU Support of Hungary* (short name: *National Development Office, NDO*). The NDO took over practically all staff of the Assistance Coordination Secretariat, and has furthermore recruited a number of experts from the former Ministry of Economy, including the core of the team that had been on the National Development Plan during the previous two years. As a further important addition, the NDO recruited key experts from the National Agency for Enterprise Promotion, the implementing body of the Széchenyi Plan, in order to incorporate their experience in programme management and the development of administrative procedures for grant-based development measures. The remaining staff positions were filled up with new recruitments, selected on a competitive basis.

The fact that the NDO (and thus the PMO) plays a key role in the course of preparations for EU accession brings great responsibility and a large number of tasks. The major tasks of the NDO can be summarised as follows:

- The coordination of EU funds on a governmental tier before and after accession, the supervision of ISPA and PHARE projects, and the preparation for the reception of Structural Funds and the Cohesion Fund;
- The preparation and coordination of the Hungarian National Development Plan and the establishment of its cooperative framework;

- The coordination of the work of the State Departments participating in the EU support programmes;
- The creation of forums for outside professional, right-protecting, non-governmental and scientific partner organizations;
- Preparation of future project beneficiaries for EU funds programmes.

The NDO, due to the tasks it has to perform, is involved in various activities from preparing the National Development Plan to ensuring the forums for social dialogue and training civil servants. It participates in all tiers of the EU support programmes coordination: it manages the PHARE programmes, coordinates the preparations for the Structural Funds, will play the role of the Managing Authority for the CSF, informs the potential applicants and collects the project proposals as well as prepares the applicants and coordinates their training. As a conclusion one can say that the NDO is responsible for coordinating the EU funds so that they best serve the development of Hungary, ensuring the necessary social debate and support for the programmes, and helping all potential applicants to be able to use most of the EU funds, and to prepare successful tenders.

The management of the Structural Funds' programmes requires the establishment of a special institutional structure as well as the implementation of certain policy processes and principles. The competencies and responsibilities of the institutions managing the Structural and the Cohesion Funds are laid down in Community regulations, to which the Hungarian institutional system has to conform to.

In the framework of the negotiations leading to the provisional closure of Chapter 21 on Regional Policy, the Hungarian Government undertook to pass by the end of 2002 all decisions necessary to define the general institutional framework of the Structural Funds in Hungary. In 2002 these ministries in charge of establishing the managing authorities of the various operational programmes were designated and specific ministerial units/departments were established to that effect (see In the period of adaptive Europeanisation, one of the key areas of preparation for the EU within the public administration was the preparation for the EU's regional policy. The European Commission continuously monitored Hungary's progress in this field and exerted considerable pressure on the country to develop its regional administrative capacities (Brusis 2001: 12 or for the detailed debate see Fowler, 2002; Hughes et. al., 2003). This necessitated on the one hand the partial restructuring of the country's territorial organisation, and on the other hand the establishment of new institutions for the management of EU regional funds (see). The Managing Authority for the entire CSF will be the NDO.

Managing Authorities bear full responsibility for ensuring the efficient and professional management and implementation of European Structural Funds' programmes, so as to bring the

maximum economic benefits to the areas concerned – consistent with horizontal Government policies. In carrying out their responsibilities MAs will, in liaison with other ministries and partners, draw up and draft Operational Programmes and Programme Complements, negotiate the OPs with the European Commission, implement programmes that meet the needs of the sector taking into account the views of the relevant Monitoring Committee, the terms of the OP and relevant European Union legislation. They aim to achieve the agreed programme outputs, results and impacts and to exceed them wherever possible and encourage local partnerships to look strategically at the programme and develop links with policy experts in ministries, to ensure the strategic direction of the programme reflecting current and developing policies of the Hungarian Government.

In undertaking all the above, the MAs also comply with the EU's requirements to achieve value for money from projects which contribute to a clear Structural Funds strategy designed to ensure coherent and targeted support. In order to maximise the benefits of the projects, they take account of the significant contribution, whether direct or indirect, the private sector can make to programmes both in terms of economic development and finance. The MAs, in concert with ministries, monitor and evaluate the delivery of programmes and act on the results to maximise value for money, outputs and impacts and to ensure interventions that remain consistent with Hungarian Government policies as they develop over the lifetime of the programmes.

### **Intermediate Bodies (IB)**

Intermediate bodies are defined by Commission Regulation (EC) No 438/2001 as public or private bodies or services acting under the responsibility of managing or paying authorities or performing tasks on their behalf in relation to final beneficiaries or the bodies or firms carrying out projects or actions. The overall success of the implementation of Hungary's Community Support Framework (CSF) will largely depend on the capacity of Intermediate Bodies to manage projects in a timely, efficient and effective manner. While the Managing Authority remains responsible for all aspects of the implementation of the OP, however, the majority of project cycle management-related functions are delegated to Intermediate Bodies. The decision concerning the manner of designating the organizations involved in the Operational Programmes and the allocation of their functions was made primarily with a view to efficiency.

During the accession negotiations, there was an interministerial committee established to tackle the task of coordination and supervision of the preparation process (Ágh, 2003a: 107-110). The committee was led by the Ministry of Foreign Affairs and was split into several sub-committees (task forces) based on the negotiating chapters. Each task force worked on a given negotiating chapter and was led by the representative of the ministry, which was the host of the given chapter. The committee managed Hungary's preparation for accession successfully and proved to be a useful method of coordination. Based on this approach, after the Medgyessy government took office, a similar committee was established (Interministerial Coordination Committee for

Development Policy Coordination /FKTB/), but this time the aim was different: to coordinate the work of ministries on development policy and the preparations for the reception of the Structural and Cohesion Funds. It was thus this committee that approved the principles to be followed and criteria to be met by the institution when identifying the Intermediate Bodies to be involved in the implementation of the Operational Programmes. The principles that were taken into consideration when selecting the Intermediate Bodies are the following.

- Priority of existing structures: In view of the extremely short time period available for preparation, the selection of new organisations, or ones with no experience in support systems, as Intermediate Bodies was to be avoided.
- Legal background: One fundamental criterion applicable to Intermediate Bodies is the regulated legal background of the organization; the body should have the documents required by law concerning its establishment and operation.
- Experience: Only those bodies should be selected as Intermediate Bodies which had several years of experience in the operation of application-based schemes financed from domestic and/or pre-accession funds and in the related technical-implementation functions which are also necessary for the operation of the Structural Funds.
- Separation of functions: In the context of selection consideration was given to the separation within the current national assistance institutional system of organisations/organisational units dealing with technical implementation and those engaging in professional consulting.
- Transparent structure: In the context of the establishment of the institutional system it was taken into consideration that the establishment of single-channel reporting and control systems is essential in order to assure the transparency of the implementation system.

Institutions nominated by the OP Managing Authorities for participation in implementing the Structural Funds in Hungary went through a thorough and rapid institution-building process in the course of 2003. It involved an independent audit of all organizations with respect to their organization, human, financial and technical management resources, as a pre-condition for admission into the system. After accreditation, altogether 24 entities were designated as Intermediate Bodies for the Structural Funds and the Cohesion Fund in the autumn of 2003. Among them there are departments of ministries, quasi NGOs as well as all the seven Regional Development Agencies and other deconcentrated organs of the central public administration.

## **Paying Authority**

The Paying Authority (PA) plays a rather administrative role among the institutions of regional policy. However, smooth operation of the PA is a basic precondition of successful projects. In Hungary the Ministry of Finance was designated as the single Paying Authority for all Structural Funds and the Cohesion Fund, and will therefore have responsibility for drawing up and submitting payment applications and receiving payments from the Commission. The Paying Authority is also responsible for:

- Submitting not later than 30 April of each year expenditure forecasts to the Commission for the current and following year.
- Managing the payment on account of Funds.
- Drawing up and submitting certified payment applications to the Commission on the basis of expenditure actually incurred by the Final Beneficiaries.

The operation of the PA is described in more detail in the section on financial management.

## **Partnership**

One of the basic principles of regional policy (approved after the 1988 reforms of the Structural Funds) is partnership. In the context of the recent reorganization, Hungary has adopted measures to ensure a wider application of the partnership principle. A separate unit responsible for partnership, information and communication has been established in the National Development Office, reflecting the Government's willingness to give a higher profile to the association of the partners in the programming and implementation of Structural and Cohesion Funds assistance.

The NDO together with ministries coordinating Operational Programmes and regional development institutions, social partners, economic, professional, regional non-governmental, minority and women's organisations and also local governments associate in the process of consultation. In the course of consultation the scope of social partners, trade unions and employer's associations, professional organizations and economic lobbies traditionally participating in community consultation of interests at sectoral and macro tier, were directly contacted. In the process the national and regional, the economic, social, non-governmental, minority and women's organisations all played a key role. Due to the high number of potential partners, more than three thousand settlements and local county governments in Hungary were directly contacted through their associations. Organizations working on a national tier, registered on the official lobby list of the parliament, recommended by professional and sectoral organizations and representing non-governmental and horizontal interests, respectively also

expressed their opinion on the strategy.

At the national tier key forum on the macro tier also discussed the National Development Plan: the National Council for Interest Reconciliation, the National Regional Development Council, the National Environment Protection Council and Regional Development Councils. In this context, the Regional Development Councils and Agencies play a pivotal role in organizing the involvement of partners at regional and local tiers. The Reconciliation Council of Regions, consisting of the presidents of the Regional Development Councils, has been established as a consultative forum with a view to developing a common position of the regions on questions such as their involvement in the preparation and implementation of Structural Funds assistance. Consultations on the National Development Plan were divided in three phases. Situation analysis and strategy were discussed during the period of October and November 2002, Operational Programmes were subject to public debate in October-November 2002, and the debate on the final form of the whole documentation were held from December 2002 to March 2003.

### **Monitoring, evaluation and financial management**

The monitoring process means a thorough and continuous monitoring, control and evaluation of all programmes supported by EU financial assistance. For this purpose, the above-mentioned Council Regulation (EC) 1260/1999 in section (48) states: "it should be stipulated that the Monitoring Committees are bodies appointed by the Member State supervising assistance, checking on how it is being managed by the managing authority, ensuring compliance with its own guidelines and implementing rules and reviewing evaluations." There were separate Monitoring Committees established for the CSF itself and for each Operational Programme.

### **The CSF Monitoring Committee**

The CSF Monitoring Committee (CSF MC) was appointed some months after the approval of the CSF and is responsible for supervising the assistance and assessing how the funds are being managed by the OP MAs. The CSF MC has responsibility for the implementation of the Objective 1 Programmes. The Operational Programmes delivering the Structural Funds have individual Monitoring Committees.

The roles and responsibilities of the CSF Monitoring Committee will be as follows:

- To review progress made towards achieving the objectives of the CSF,
- To examine the results of implementation, particularly the achievement of the CSF targets and the results of evaluations,
- To consider and approve annual and final implementation reports of the CSF before

submission to the EC,

- To consider and approve any proposals to amend the contents of EC decisions on funds,
- To propose to the OP Managing Authorities/Monitoring Committees any adjustments or reviews of the CSF priorities likely to impact on the attainment of objectives,
- To adopt a national publicity strategy concerning CSF and ensure that there is good communications related to the SFs.

The membership of the CSF Monitoring Committee is as follows:

<p><b>Full members:</b></p>	<p><b>Representatives of</b></p> <ul style="list-style-type: none"> <li>• CSF Managing Authority: Prime Minister's Office - (Chairman)</li> <li>• Heads of Managing Authorities of each of the OPs (5)</li> <li>• Relevant ministries: Ministry of Education, Ministry of Environment and Water Management, Ministry of Health, Social and Family Affairs, Ministry of Information and Communications</li> <li>• Representative of the Regions</li> <li>• Economic and Social partners</li> <li>• Representative for minority and equal opportunities interests</li> </ul>
<p><b>Permanent members with a consultative role:</b></p>	<p><b>Representatives of</b></p> <ul style="list-style-type: none"> <li>• Representative of the Paying Authority (Ministry of Finance)</li> <li>• Government Control Office</li> <li>• European Commission</li> <li>• European Investment Bank (where appropriate)</li> </ul>

After constituting, the CSF Monitoring Committee drew up its own rules of procedure. As a general rule, the following framework is given for the operation of the CSF Monitoring Committees. The Monitoring Committee shall meet at least twice a year. The agenda and all documents of the Monitoring Committee meeting shall be sent out to the members at least 3 weeks before the meeting. The Monitoring Committee shall take its decisions possibly by consensus. The CSF MA is responsible for providing the secretariat to the Monitoring Committee. The administrative tasks of the secretariat and the operational rules thereof shall be subject to the decision of the Monitoring Committee.

### **The OP Monitoring Committee**

The OP Monitoring Committee is the overall coordination and decision-making body of the Operational Programme. According to Regulation 1260/1999/EC, the Monitoring Committee ensures the quality and effectiveness of the implementation of the assistance. To this end, the Monitoring Committee has the following tasks and responsibilities:

- It confirms or adjusts the programme complement, including the physical and financial indicators to be used to monitor the assistance. Its approval must be obtained before any further adjustment is made;
- It considers and approves the criteria for selecting the operations financed under each measure within six months of approval of the assistance;
- It periodically reviews progress made towards achieving the specific objectives of the assistance;
- It examines the results of implementation, particularly the achievement of the targets set for the different measures;
- It considers and approves the annual and final implementation reports before they are sent to the Commission;
- It considers and approves any proposal to amend the contents of the Commission decision on the contribution of the Funds;
- It may in any event propose to the Managing Authority any adjustment or review of the assistance likely to make possible the attainment of the objectives of the Structural Funds or to improve the management of assistance, including financial management.

According to Regulation 1260/1999/EC, the Monitoring Committee is set up by the Member State, in agreement with the Managing Authority after consultation with the partners, it shall be chaired, as a general rule, by the Member State or the Managing Authority, furthermore the Commission and, where appropriate, the EIB shall be represented in the Monitoring Committee. According to these rules, the following general scheme is set up for the composition of the OP Monitoring Committees:

<b>Chairperson:</b>	<b>Head of the OP Managing Authority</b>
<b>Full members:</b>	Representatives of <ul style="list-style-type: none"> <li>• the CSF Managing Authority</li> <li>• the Ministries and departments concerned in programme implementation (key ministerial partners)</li> <li>• the economic and social partners</li> <li>• organizations representing horizontal issues (equal opportunities, environment, Roma issues, etc.)</li> <li>• Regional Development Councils</li> </ul>
<b>Permanent members with a consultative role:</b>	Representatives of <ul style="list-style-type: none"> <li>• the European Commission</li> <li>• the EIB (where appropriate)</li> <li>• the Paying Authority</li> <li>• each Intermediate Body of the Operational Programme</li> <li>• the Government Control Office</li> <li>• the Information and Publicity Unit of the CSF MA</li> <li>• the Ministry of Environment and Water Management</li> </ul>
<b>Non-permanent members with a consultative role:</b>	<ul style="list-style-type: none"> <li>• Representatives of final beneficiaries</li> <li>• Invited experts</li> </ul>

Vertical partnership is assured by the representation of Regional Development Councils, which also represent the local governments of their respective regions. Economic and social partners and organizations representing horizontal issues were invited following a standardised procedure for each OP. After being set-up, the OP Monitoring Committees drew up their own rules of procedure. The Monitoring Committee shall meet at least twice a year. The agenda and all documents of the Monitoring Committee meeting shall be sent out to the members at least 2 weeks before the meeting. The Monitoring Committee shall take its decisions possibly by consensus. If no consensus can be reached in a given question, the issue shall be subject to further conciliation between the OP MA, the CSF MA and other parties directly concerned in the given question. The OP MA is responsible for running the secretariat of the Monitoring Committee. The administrative tasks of the secretariat and the operational rules thereof shall be subject to the decision of the Monitoring Committee.

As mentioned above, the Ministry of Finance is designated as the Paying Authority responsible for the reception of the Structural Funds and Cohesion Fund (2187/2002. (VI.14.) Gov. Decree). The functions of this entity will be realized by the present National Authorizing Officer's (NAO) Office, which was founded by the Minister of Finance on 1 January 2002. The aim of the establishment of the NAO Office was to fulfil the tasks and responsibilities of the NAO, who is

the Deputy State Secretary of the MoF responsible for International Relations.

The NAO Office actually is divided in two major units:

- National Fund
- Structural Funds Coordination and Regulation Unit.

The *National Fund* covers tasks concerning the financial management and control of pre-accession instruments. The National Fund fulfils its functions by its Financial Management and Control Unit, Accounting Department, Institution Building Unit and the PHARE Unit. Regarding staffing, the National Fund this year has experimented an important growth in its number of employees: actually it has a staff of 23 people. The *Structural Funds Coordination and Regulation Unit* has a role in the elaboration of the planning of the financial management system subsequent to accession and the preparation for the management of the system. The work within the Unit is divided by Funds.

The Paying Authority is split up in five units, namely: Financial Management Unit, Certification of Expenditure Unit, Accounting Unit, a Methodological Unit merging the present Institution Building Unit and the SFs Unit, and Internal Audit Unit. The tasks of the Paying Authority will be fulfilled based on the present staff of the Office taking into consideration the increase of the fields to be covered, which requires further improvement of human resources.

## **CONCLUSION**

The task of the adoption of the *acquis communautaire* was an overwhelming one, taking into account that Hungary (together with all the post-communist countries) did not only have to tackle the problems of the preparations for EU accession but first had to transform from a state socialist country with a planned economy to a democracy with a market economy. Progress in the modernisation and democratisation of the country was made with a view to future EU accession already since the change of the political system. However, the road to 1 May 2004 was a bumpy one with lots of obstacles and temporary setbacks. Finally, Hungary proved to be one of the most prepared candidates among the Central European countries to enter the EU in the greatest enlargement in the history of the Community.

The question of what will happen after accession and how successful will Hungary be as a full member is a rather complex one. It is, however, obvious that one of the key factors of Hungary's success is the country's ability to make good use of the regional support of the European Union. Efficient and effective use of these funds will not only help the country develop its infrastructure and some policy sectors, or provide funding for the agriculture and rural development, but it will also enable to enhance the country's economic (and thus social) competitiveness in an increasingly globalised world.

This study provided a description of Hungary's domestic system of spatial development and that of the institutions established for the absorption of the Structural and Cohesion Funds of the EU. The analysis revealed the advantages and disadvantages of the system of regional development and the regional administrative system of territorial organization. It could be seen that the present system of territorial management has several weak points and the reform has become inevitable in order to ensure operation. The efficiency of the new system, which is to become operational in the first half of 2004, cannot yet be evaluated. It is clear that Hungary meets the criteria set by the European Commission and that the required government agencies and other bodies have been established in due time. The other side of the equation, i.e. the successful participation of the target beneficiaries, is however unknown as yet, and no predictions can be made about the rate of success or failure.

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**1. Table:**  
**Funds available to Hungary through the Structural Funds and the Cohesion Fund between 2004-2006 (in EUR million)**

<b>Operational Programmes</b>	<b>ERDF</b>	<b>ESF</b>	<b>EAGGF</b>	<b>FIFG</b>	<b>Total</b>
Economic Competitiveness OP	429.00				<b>429.00</b>
Agricultural and Rural Development OP			312.80	4.40	<b>317.20</b>
Human Resource Development OP	177.38	385.40			<b>562.78</b>
Environment and Infrastructure OP	327.25				<b>327.25</b>
OP for Regional Development	305.80	53.65			<b>359.45</b>
<b>Total</b>	<b>1 239.43</b>	<b>439.05</b>	<b>312.80</b>	<b>4.40</b>	<b>1 995.68</b>
Community Initiative Programme					<b>68.68</b>
Interreg					<b>30.29</b>
Community Initiative Programme EQUAL					<b>1 123.65</b>
Cohesion Fund					<b>3 218.30</b>
<b>Total EU funding</b>					<b>3 218.30</b>

*Source: Hungarian Community Support Framework and European Commission*

**2. Table:**  
**Territorial organisation of Hungary**

<b>NUTS level</b>	<b>Number of units</b>
NUTS I (country)	1
NUTS II (statistical-planning region)	7
NUTS III (county)	19+1
NUTS IV (small regions)	168
NUTS V (settlements)	3135
Towns with county rights	22
Other towns	229

*Source: Central Statistical Office*

**3. Table:  
Major duties of local self-governments**

<b>Name of duty</b>	<b>Proportion of all duties</b>
Health care and social policy	32%
Education	46%
Other communal duties	5%
Transport, telecommunications and water management	6%
Spatial development, environment policy and other duties	11%
<b>Total</b>	<b>100%</b>

Source: Verebélyi, 1999: p. 316

**4. Table: Managing Authorities of the National Development Plan**

<b>Ministry or Office</b>	<b>Operational Programme or EU Fund</b>
Ministry of Economy and Transport	<i>Economic Competitiveness OP Environment and Infrastructure OP</i>
Ministry of Employment and Labour	<i>Human Resources Development OP</i>
Ministry of Agriculture and Rural Development	<i>Agriculture and Rural Development OP</i>
National Development Office	<i>Regional Development OP Cohesion Fund +CSF Central Managing Authority</i>

Source: Hungarian Community Support Framework