New perspectives is Hungarian rural development

April 2007
Table of contents

1. EXECUTIVE SUMMARY ........................................... 3
2. INTRODUCTION .................................................. 5
3. WHY IS THERE A NEED FOR RURAL DEVELOPMENT? ....... 8
4. A CHANGE OF PERSPECTIVE AND STRUCTURE – RURAL DEVELOPMENT FROM A PROGRESSIVE APPROACH ... 10
5. HUNGARY’S RURAL DEVELOPMENT STRATEGY BETWEEN 2007–2013 .................................................. 12
6. POTENTIAL LEVERAGE POINTS OF THE HUNGARIAN STRATEGY .................................................. 14
7. A NEW WAY OF SHARING RESPONSIBILITY IN RURAL DEVELOPMENT – THE LEADER PROGRAMME ........... 19
9. BIBLIOGRAPHY .................................................. 24
The adjective “rural” is very often used as a derogatory quality in a number of contextual situations as a synonym of backwardness and the Hungarian wasteland. Stereotypes surface in a number of other aspects as well. Rural economy, for many, is equivalent with agricultural production. Consequently, these people believe that the problems of rural areas may only be remedied through the modernization of agriculture.

The decreasing significance of agriculture within the national economy as well as poverty in and migration from many rural settlements are indicative of the need to shift from the traditional approach focused on agricultural issue to an integrated rural development perspective. Among other things, this new perspective involves industrial, rural, environmental, sociological and human resources, as well as community development. Although agriculture still plays a crucial role in rural economy, it is of an entirely different nature than back in the 1950s and 1960s. Agriculture may play a significant role in the future in the preservation of the landscape and environmental conditions, producing raw materials for industrial processing and establishing the preliminary conditions of services available in rural areas.

Consequently, rural development cannot stop at meeting tender requirements or realizing specific economic goals. An integrated rural development programme is a process that strengthens local human and community resources, local leadership, entrepreneurship and innovation. It supports people’s ability to cooperate effectively on the local level and have clear ideas about where they are going. As a result, local communities can shape their own future to a greater extent than ever before.

The most significant task for Hungary regarding the European Union Budget Cycle beginning in 2007 is to utilize the available resources in the most efficient manner. To illustrate the importance of the issue, one eighth of the available EU funds are planned to be spent for the specific projects listed under the New Hungary Rural Development Programme. Aid for full-time agricultural employees, constituting only 5 percent of the active labour force, is also many times more in the Hungarian program than for any other non-agricultural sector. However, the HUF 230 billion fund (including the LEADER Programme designed to support local innovative initiatives) available for the diversification of the rural economy and the improvement of living standards offers plenty of manoeuvring space.

We give priority to five areas of Hungarian strategic development in terms of improving the living conditions and the subjective quality of life of the rural population. These include rural business development, village renewal, rural tourism as well as renewable energy resources and establishing service centres. These developments can contribute to helping all citizens have a chance for social mobility within their places of residence and avoid having to leave their home settlement for external causes (e.g. employment shortage, low wages, non-existence of services, poor quality infrastructure and living environment).

Ensuring the freedom of choice of LEADER action groups is necessary. Nevertheless, this perspective has to be synchronized with the implementation of some of the central elements of the New Hungary Rural Development Programme. In an effort to
realize the above goals, DEMOS proposes to have each action group integrate at least two of the above five development areas in their local rural development plans. By doing so, we can ensure that all of the five development paths will be realized in the Hungarian LEADER Programme. The rationale behind highlighting the LEADER Programme is the significant role it plays in revitalizing cooperation among local government, business and civilian organizations. The truly big opportunity is that (depending on the number and population of the settlements covered) the individual action groups may have access to funds of up to 0.5 to 1 billion HUF between 2007 and 2013.

In order to effectively utilize the available resources, our top priority is to launch a targeted communication campaign. This may help expand the pool of participants even prior to issuing the next invitation to the LEADER Programme. An infrastructure helping to exploit the opportunities in local innovation also needs to be established. In addition, in an effort to help the integration of past experience with innovative ideas, we propose to launch a Hungarian-language website on best international practices.
This booklet emphasizes the need for a change in the approach to rural development. The expression rural area has a fundamentally different connotation in Europe than in Hungary, where the “peasant” culture of the rural population is one of the most important elements of our historical identity. This culture is in part the bearer of medieval, feudal patterns and attitudes symbolizing backwardness as a consequence of the belated emergence of the bourgeoisie and in part a source of incredible richness. Beyond doubt, some time ago the “people” meant those living in rural areas and primarily involved in agriculture, who made up approximately three-fourths of the country’s population in the second half of the 19th century and over one half even on the eve of World War II.

Globalization and the seemingly unstoppable urbanization process are gradually chipping away this traditional structure and leaving settlements appearing to be economic and cultural wastelands. Is this a necessary and irreversible process? Will tomorrow’s Hungary consist of an endless network of urban agglomerations? Are the new approaches to rural development really about raising the dead and invoking the spirit of something long gone? Just to make it crystal clear right up front: the author of this study is not overwhelmed by some gloomy nostalgia but rather the very living hope of rural development and an effort to inspire. Therefore, the answer to the questions above is a definite ‘no’.

The official opinion of DEMOS Hungary Foundation is that one of the main reasons for the currently prevalent trends is precisely that narrow-mindedness surrounding the concept of rural areas and the lack of alternatives for those living there. This approach, which has so far dominated Hungary’s rural development policy along with the traditional practice of the EU, even now, at the beginning of the 21st century, considers agricultural employment the most important function of rural areas, thereby isolating those living there from the very economic and spiritual processes that define our age.

Although this approach is gradually changing, the general public still draws an equation between rural areas and agriculture. It cannot be ignored either that complex, modern rural development concepts have so far been missing. The key statement of this study is that only a non-agriculture based, complex, integrated regional development strategy can usher European and Hungarian rural areas into the stream of funds and help those benefit from globalization in the long run.

How can we define the term “rural areas”? For many, any region outside Budapest is considered rural in Hungary, ignoring the fact that in this way prospering cities like Debrecen, Győr, Pécs or Szeged are put in this category, as well. As a result of the evolution of the structure of Hungarian settlements, many smaller towns with populations between 10,000 and 100,000 exist in addition to those big cities. These micro-regional centres play a crucial role in the development of small settlements with populations less than 10,000. This booklet, however, uses the definition included in the guidelines of the European Union and in the past and present Hungarian rural development programs.
that considers “rural” all village-like small settlements with populations under 10,000 and micro-regions with population density figures below 120 residents per square kilometre. Consequently, only the development opportunities of settlements meeting the above criteria are examined in this study. Any settlement with a population over 10,000 is disregarded in the present document even if they could be classified as “rural” by a different definition.

The primary objective of Demos Hungary is to shape public debate with new and innovative approaches supported by professional arguments and to offer inspiring ideas to policy makers. The present study aims to highlight the importance of rural development and suggests an original approach to the issue. The decreasing significance of agriculture within the national economy as well as poverty in and migration from several rural settlements are indicative of the need to shift from the traditional approach focused on agricultural issues to a different, complex perspective on rural development integrating social, and regional development including education-training considerations. The third and fourth chapters of the study argue for the need for that change of approach.

When looking for the steps to improving the situation of Hungarian rural areas, we must also take into account Hungary’s EU membership, which has and will influence the main directions of Hungarian rural development. Chapter Five focuses on the priorities and figures of the Hungarian strategy for the EU budget cycle between 2007 and 2013.

The key to success in the development of agriculture and the quality of rural life in the next seven years will be the so-called third axis of the European Agricultural and Rural Development Fund (EARDF) and the improvement measures completed during the fourth axis, i.e. the LEADER Programme. Based on local cooperation and the support for local plans, ideas and concepts, LEADER brings a new approach to rural development, which clarifies that the state does not consider its task to determine in detail from on high what types of developments the individual settlements should implement. LEADER allows locals to decide what to do with their immediate surroundings. After the presentation of the Hungarian strategy, Chapter Six attempts to identify potential areas of development that could help rural areas retain their population. Chapter Seven provides a background to the past, present and future prospects of the LEADER Programme. Finally the conclusion of this study includes proposals that may contribute to the success of the LEADER Programme.

In the following section we make an attempt to identify the development paths to follow within the framework of the responsible ministry (Földművelés-ügyi és Vidékfejlesztési Minisztérium – MARD) and its newly developed concept entitled New Hungary Rural Development Programme (NHRDP). The activities of other ministries, of course, have a significant impact on the income situation of the rural population, their opportunities for social mobility and the status of their living environment. The programmes developed by the Ministries of Welfare and Labour, of Education, of Health, of Local Government and Regional Development, of Economy and of Environmental Issues also have

---

2 The individual member states may use definitions different from the official EU guidelines. Adopting the EU principle, Hungary used the above definition when developing past agricultural and rural development programs as well as the New Hungary Rural Development Strategic Plan.

3 LEADER (Liaisons Entre Actions de Développement de l’Economie Rurale): Harmonizing actions for the development of rural economy.
a deep impact on the changing living conditions of the rural population. In the long run, the most effective solution for rural development would include a joint rural development strategy developed by the relevant ministries. The connection points between the policies of the ministries involved and MARD were not fully explored by the NHRDP. A future study could examine the impact of these various special fields and other programmes (e.g. INTERREG, a joint regional development programme of the Ministry of Welfare and Labour and the NHRDP).

Due to its physical limitations, this brochure cannot offer a new, comprehensive strategy for the development of Hungarian rural areas. However, it has the potential to shift the emphasis in terms of solving the problems of rural areas. This study is designed to draw attention to the need for a complex approach to rural development; outline the options for Hungarian rural development policy within the European Union, identify the elements of the Hungarian rural development programme with the most potential in terms of job creation outside the agricultural sector, increasing wages and improving the quality of life; highlight the opportunities of the LEADER Programme and offer recommendations for the future of the programme in Hungary. Such focus on LEADER is justified by its role and potential in local innovation as well as cooperation between local governments, businesses and NGOs.
3. WHY IS THERE A NEED FOR RURAL DEVELOPMENT?

Social justice, solidarity, equality of opportunity, creating opportunities – these are probably the most often heard political goals of the day. There are very few specific fields where these expressions could be more justified than in the development of Hungarian rural areas. It is both sad and unacceptable that the word “rural” in Hungary is now used as a pejorative adjective in various contexts as a synonym for backwardness. A number of indicators, however, help strengthen that image.

When calculated using the buying power and parity relationship, the income level of rural regions lags behind the national average. This is primarily due to the low-level qualifications of the active workforce and the resulting high proportion of blue-collar workers. The ratio of the service sector in Hungary is below the EU-25 average but the difference is even more apparent in the rural economic structure. The proportion of the unemployed is higher while that of the employed is lower than the national average. Due to the sharp decline in job opportunities, migration from rural areas has increased considerably over the past decade. This tendency is clearly indicated by the fact that out of seven Hungarian regions, only central and western Hungary reported an increasing population (NHRDP 2007, p. 10). 4

One consequence of the youth migrating to the cities is the aging rural population, which can only be prevented by expanding employment opportunities, creating new jobs that offer decent living standards and improving the quality of life.

When discussing the “retaining power” of rural areas, do not think about forcing locals to stay where they are. In many ways (e.g. cultural services or higher education opportunities), small settlements could never compete with large cities. As a result, these settlements can expect some migration even in the future. City life, however, does not attract everyone. There are, of course, those who would not like to leave their homes and villages behind for a better paying job or employment opportunities.

The main goal of rural development, therefore, is to help those choosing to live in a rural environment to have opportunities for progress, appropriate quality of life and social mobility. Our goal should be to guarantee that no will be forced by external factors to leave their homes (e.g. lack of jobs, low wages, non-existence of services, poor quality infrastructure and living environment).

Rural development is therefore a key issue in terms of creating equal opportunities. Only by doing so can we avoid having prosperity linked only to cities and enable each and every citizen to lead a quality life wherever they choose to live.

As seen from the above, the disadvantaged status of rural settlements is a fact in many respects. A government treating the break-up of society as a priority must take measures to allow those living under less favourable circumstance to experience less disparity between theirs and the more developed regions of the country in terms of wages, job opportunities and the quality of life.

Another urgent call for a new approach to rural development is the significant fallback of agriculture in terms of the national economy. Compared to the other sectors of the national economy, agriculture

---

4 The figures included in the New Hungary Rural Development Programme were compiled by the Agricultural Economics Research Institute from the official database of the Hungarian Central Statistical Office.
has little economic weight and, more importantly its importance is in decline. Agriculture accounted for 3.7 percent of the Hungarian GDP in 2005 compared to 4.6 percent in 2000 (NHRDP 2007, p. 12). Another indicator of its declining economic role is that compared to 22.7 percent in 1994, agriculture (including the food industry) accounted only for 7.2 percent of all Hungarian exports in 2007. (NHRDP 2007, p. 13). The employment share of agriculture also shows a significant decline. In 2003 only 15.9 percent of the above-15 population (1.3 million) were involved in agricultural production compared to 32.8 percent (2.7 million) in 1991. Compared to 9 percent in 1994, only 5 percent the workforce were full-time agricultural employees in 2005 (NHRDP 2007, p. 11.). It must be noted, however, that the declining economic role of agriculture is not yet balanced out as much as needed by economic activities outside the sector.

The above indicators question the very basis of the traditional agriculture-based approach to rural development.

No political field can be separated from the political environment in which the individual steps of a programme are developed, discussed, and approved or rejected. Therefore it would be a grave mistake not to mention the potential political advantages of a strategy placing emphasis on rural development. Rural areas accounted for 87 percent of Hungary’s territory in 2003 with 4.8 million inhabitants, i.e. over 47 percent of the country’s total population (NHRDP 2007, p. 10). Considering the disadvantageous age structure of rural settlements, it means an even larger percentage of voters in rural areas even though proportionately there are more active voters in the cities. A realistic strategy aimed at strengthening rural economy, increasing the population retaining force of and improving the quality of life in rural areas that appear authentic to voters may bring more votes to the political force undertaking this programme.

Today voters generally associate addressing rural issues with the political right. This is due more to traditionalism rather than a convincing rightist rural development image. In its 2006 election programme, Fidesz devoted only one sentence to the dimensions of rural development beyond agriculture in the chapter entitled “Hungarian farmer – Hungarian land”: “We are going to provide extra support to those who did not choose agriculture as a career but wish to live in rural areas” (Fidesz 2006, pp. 9–10.). Nothing more specific is included in the document. Nevertheless, the political right is undoubtedly enjoys the advantage at rural settlements.

It is of symbolic value that the chapter on rural development of the Freedom and Solidarity programme of the government re-elected in April 2006 discusses only the modernization of agriculture (New Hungary 2006, p. 27–29). In compliance with the strategic guidelines of the European Union, the Hungarian agricultural and rural development programme for 2007–2013 has separate chapters on the improvement of the quality of rural life and economy. The LEADER Program supports local initiatives from EU funds and treats the unified management of economic, social and environmental issues as a top priority. However after analyzing the fund allocation schemes for the next seven years, one can see that agricultural development initiatives take up the majority of all developments.

Neither on the political right nor on the left is there a rural development strategy that would consider diversification of the rural economy and improvement of the quality of life as the number one priority when allocating funds. On the national level, funding for agriculture, accounting only for 5 percent of full-time employees is still many times higher than funding for non-agricultural sectors. We believe that a progressive approach to rural development has to break away from this tradition and open a new, realistic path of opportunities for the public resulting in a sustainable rural development programme.
Up to the 1980s the European Union believed that the main function of the countryside was providing foodstuffs. On the European level, the only significant policy for rural areas was the common agricultural policy (CAP). The problems that surfaced in the 1980s such as the decreasing employment in agriculture, the increasing social and community costs or environmental pollution provided plenty of ammunition to those advocating the need for an overall reform of agricultural policies. However, even the McSharry reform proposing a common agricultural policy in 1992 failed to redefine the principles and goals of funding. According to many analysts this was primarily due to the pressure exercised by national governments and the still strong agricultural lobby. The vast majority of funds from the Union to rural regions would continue to serve the interests of intensive agricultural production, even if under a different name (Nemes 2000, p. 460).

The unquestionable achievement of the last one and a half to two decades was, however, that experts involved in rural development began to voice a complex approach based on coordinating developments in specific areas (rural preference) as opposed to the principle of sector-based agricultural preference. Integrated rural development means including available development resources and concepts into a coherent system covering economic, human resources and community focused developments (Midgley 2006). From a progressive point of view, rural development includes a number of areas of which agriculture is just one and by far not the most significant. A complex approach covers the following: industrial production, regional development, environmental protection and the development of social politics and communities (Nemes 2000).

This approach is based on the premise that the primary objective of rural development is not just to provide foodstuffs. It is to create opportunities for the economic growth of the specific regional units, improve the career opportunities and living conditions of the people living there and provide them with access to basic services. Both the individual countries and the EU are fundamentally interested in bridging the social and economic gaps between the regions within a member state and between the members of the community alike. The management of this problem has become an even more urgent issue to solve with the access of the EU-15 and later with Romania and Bulgaria joining the European Union on 1 January 2007.

All over Europe there are significant differences between the mostly agriculture-centred rural development policies of the national governments and the EU organizations and the daily problems and needs of rural societies. Still huge amounts of money are directed to economic sectors where only a fraction of rural societies work, the primary example being the common agricultural policy accounting for close to one-half of the total budget.
of the EU. The traditional concept of agriculture as the driving force of rural economy is far from the truth both in the Union as a whole and in Hungary.

The first step to the complex management of rural development is the realization of a need to review the agricultural orientation of rural economy and rural development. New economic sectors must be supported that can take over the previously significant role of the now declining agriculture, create new jobs and offer efficient production and greater economic growth for rural settlements.

Within the overall rural economy, agriculture still occupies an important yet quite different position than it used have back in the 1950s and 1960s. The main issue is intensive industrial farming that is often environmentally polluting, offers very few jobs and frequently produces low-quality and unnecessary products. In the future, agriculture can be a pivotal factor primarily in preserving the natural and rural environment, producing raw materials for the industrial sector and creating the preconditions of services to be made available in rural areas.

In order to bridge the gaps between the different regions the new approach should explore the problems faced by rural micro-regions (as shown above, in Hungary it means wages and employment well below the national average, migration and aging) and develop firm and consistently used principles (social justice, equality of opportunity). Once the problems are accurately identified and the real needs are assessed as a starting point, these principles can act as a guide to the renewal of rural development policies.

The spread and growing importance of the philosophy integrated rural development may contribute to shifting the emphasis from funding only one sector to using not only rhetoric but also financial means to solve environmental issues in a coordinated manner.
Perhaps it is needless to argue the importance of the final New Hungary Rural Development Programme accepted by Brussels. The document’s priorities and resource allocation outline the framework of Hungarian rural development for the following seven years with no significant changes expected in years to come. The programme designed to implement the final strategy is expected to be approved in the summer of 2007.

All member states are required to submit their rural development programmes for the next budget period. The Hungarian government had few options when designating the key priorities and had to adjust its strategy for the EU’s Rural Development Strategy for 2007–2013. Therefore, the strategic plan was developed in accordance with the Council Directive 2006/144/EC on Community guidelines for rural development. Hungary has been given clear guidelines from the European Union not only for specific financing objectives, i.e. the so-called “axes” (or measure groups) but also for the proportion of the funds allocated to these various axes. In addition, Hungary’s rural development programme had to conform to the New Hungary Development Plan (NFT II).

The first version of the New Hungary Rural Development Strategic Plan was completed in December 2005. The final version approved by the government in the autumn of 2006 was a product of an internal (involving expert workgroups) and external (county-wide residential forums and a special website5) consultation. More than 1200 comments were submitted during the public debate, resulting in over 100 modifications to the strategic plan. Nonetheless, these changes were minor and did not alter the main priorities of the original plan. The actual implementation plan, “The New Hungary Rural Development Programme”, containing specific measures was prepared on the basis of this document.6

Main objectives of the New Hungary Rural Development Programme:
1. Improve the competitiveness of agriculture and forestry
2. Improve the quality of the environment and of rural areas
3. Improve the quality of life in rural areas and promote diversification
4. Develop local capacities to increase employment and diversification

Indeed, financial resources so far unseen open up for Hungarian rural development in the amount of close to EUR 5 billion, i.e. HUF 1300 billion. Out of the 5 billion, EUR 3.8 billion will be financed by the EU budget while the rest is going to be contributed by the Hungarian state. Obviously, this amount takes up a considerable part of the approximate total HUF 8,000 billion worth of EU funds available for Hungary.

Plans for resource allocation in the near future reveal that the New Hungary Rural Development Strategic Plan and the related New Hungary Rural Development Programme is mostly designed to help modernize agriculture. There is still a strong emphasis on agriculture-based developments. Unmistakeable proof for that is that the first two axes, almost without exception, include measures for developing the agricultural sector. At the same time, as indicated above, access to funds allocated for rural development is simplified and Hungary

---

5 www.strategia.fvm.hu
6 The current study is based on the latest available version of the New Hungary Rural Development Plan published on 30 January 2007.
can use EU rural development funds more easily. Despite the fact that rural development is still not a priority within the entire common agricultural policy, funds available for this purpose are going to increase significantly in the next seven-year budget cycle.

### Table 1
Planned allocation of funds by axes in the New Hungary Rural Development Programme

<table>
<thead>
<tr>
<th>Title of the Rural Development Programme</th>
<th>Resources from the European Regional Development Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Axis I</td>
<td>47%</td>
</tr>
<tr>
<td>Axis II</td>
<td>32%</td>
</tr>
<tr>
<td>Axis III</td>
<td>11.5%</td>
</tr>
<tr>
<td>Axis IV (LEADER)</td>
<td>5.5%</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>4%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Source:** New Hungary Rural Development Programme

### Table 2
Calculated budget of the New Hungary Rural Development Programme (2007-2013), billion HUF

<table>
<thead>
<tr>
<th>Axis</th>
<th>EAFRD contribution rate (%)</th>
<th>EAFRD Contribution</th>
<th>EAFRD amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Axis I</td>
<td>648.72</td>
<td>75</td>
<td>486.54</td>
</tr>
<tr>
<td>Axis II</td>
<td>414.08</td>
<td>80</td>
<td>331.26</td>
</tr>
<tr>
<td>Axis III</td>
<td>158.73</td>
<td>75</td>
<td>119.05</td>
</tr>
<tr>
<td>Axis IV</td>
<td>71.17</td>
<td>80</td>
<td>56.94</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>55.21</td>
<td>75</td>
<td>41.41</td>
</tr>
<tr>
<td>Total</td>
<td>1347.90</td>
<td></td>
<td>1035.19</td>
</tr>
</tbody>
</table>

**Source:** New Hungary Rural Development Programme

Joint contribution ratio: 75% EU and 25% Hungarian resources in case of axes I and III and technical assistance; 80% EU and 20% Hungarian resources in case of axes II and IV.

The distribution of resources among the various axes is a given fact yet to be acknowledged and the focus of all interested parties should be on committing these funds and use them in the most efficient manner for the appropriate objectives. The most efficient method of using these funds should be identified within the respective axes. There is some room for movement as close to HUF 230 billion is available, allocated under Axis III for the improvement of the quality of life and the implementation of the LEADER Programme in Hungary. Although less than one-fifth of the available resources, this is a significant amount. It is up to the goal setting and money absorbing capacities of the individual villages, micro-regions, local rural development communities and LEADER action groups to see if the increased financial capabilities bring real development, new jobs and improving living conditions.

---

7 Applicants targeting the resources of Axis III for the budget cycle 2007-2013 can submit their “request for funds” compliant with the actions of NH-RDP to the regional offices of the Agricultural and Rural Development Office (ARDO). The regional office of ARDO evaluates the requests received on a 100-point scale. Of the objective and subjective elements of the evaluation process, objective elements weigh more. Based on the experience gathered from earlier periods, results of 55-60 points normally mean successful applications. Integration with the local rural development strategy is also considered when selecting the winning proposals. The selection of ARDO then needs approval by the supervising authority. A change for the period 2007-2013 is that proposals will not be accepted on a continuous basis for specific targets but rather certain timeframes will be specified when funds allocated for specific actions can be applied for.
As seen above, migration, aging and the closely correlated depopulation are the most important problems for Hungarian settlements with populations under 10,000. It is not without reason that the more qualified residents of these small settlements decide to try their luck in the larger towns. The main cause is the lack of jobs and lower wages compared to the opportunities awaiting them in the cities. Another contributing factor is the low level of services, if any. The third component is the deterioration of the infrastructure and buildings of small settlements compared to the appealing urban residential environment. Developments in those areas can guarantee at least a slow-down migration and help small settlements retain their talented youth. The main objective of these developments, therefore, is to improve the objective and subjective living conditions of the rural population.

Below we are going to identify the specific fields that require more attention and consideration when implementing the New Hungary Regional Development Programme. They are of increased importance in terms of formulating the living conditions small settlement residents. The development paths described below through international examples are not theory-based but all of them are included in NHRDP as measures to apply for. In addition to the funds available exclusively for these purposes, the resources under the LEADER Programme can provide a great incentive for the development areas described below.

**Rural business development**

One of the biggest problems of many rural settlements is the above-average employment rate (57 percent) and below-average economic activities (35 to 40 percent). There are few rural businesses and of those, most are micro-businesses. A clear indication of this is that 67 percent of them are self-employed individuals (private entrepreneurs). In general, not only the lack of capital but also that of expertise and entrepreneurial skills hinder the creation of new businesses.

Establishing new businesses and improving the existing ones are the keys to increasing employment and jumpstarting the economic development of small settlement. Therefore, it is crucial to provide potential and running businesses with professional advice. The HUF 85 billion allocated for rural small business development can be applied for under measure no. 312 of NHRDP.

**An international success: STIPO – a project to help local businesses in the Netherlands**

The project offers funds and consultation to new businesses planning to use innovative technological solution in the provinces of Drenthe and Friesland of the Netherlands. The plan is to provide those villages with resources that can sustain the workforce and the population in the region in the long run. As a result, local entrepreneurs can act
as catalysts of rural areas. The project is designed to strengthen small businesses and increase willingness for innovation and cooperation and to increase the potential of rural areas, which has an impact on the living standard and slows down migration to the city in the long run.

The professional meetings organized within the framework of the project are designed to facilitate information exchange between local entrepreneurs and thereby create an atmosphere of trust among them. These meetings must be informal in order to avoid scaring entrepreneurs who might shy away from a more formal setting. Consultants participating in the training are primarily expected to carefully listen to what the entrepreneurs have to say, and offer them professional advice on the issues raised concerning their businesses. This bottom-up approach is critical as in most cases businesses are made or broken “in the mind” and the can-do mentality is the real key to success. Parallel with this consultation, the project provides local entrepreneurs with information to all services they must have to launch their businesses.

The STIPO programme has three steps: 1. appropriate consultancy, 2. if no expert is available, the costs of an outside consultant are covered (up to the amount of EUR 1500), 3. state funding of 20 percent of the capital needed to launch the business (max. EUR 20,000). STIPO performs a review of the supported businesses within 3-4 years of their start. If the number of employees does not increase after a given time period and the business does not produce at least a 20 percent increase in revenues, the state aid must be returned.

This is exactly why consultancy is one of the key elements of the STIPO programme. This service allows careful weighing of all options even before launching a new business. By doing so, only those businesses utilize state aid that could prove during the consulting phase that they can stand on their own and have a real chance to become profitable businesses. Another key element is the 80 percent self-financing that increases the interest of local entrepreneurs in their own business success.

**Village renewal**

In order to improve the subjective quality of life, a well-tended, appealing living environment must also be provided for those living in the countryside. Renovating houses and common areas contributes to the effective protection of local interests and to creating a more liveable environment, as well as increasing the settlement’s appeal for tourists. The HUF 20 billion available in the Rural Development Programme for village renewal is designed to improve the environment as well as the image of the settlement (Measure no. 322 of NHRDP).

**An international success: village renewal in Roßhaupten (Germany)**

The renewal of a village in southern Bavaria serves as a model for other projects within the federal province. The project was born under double “pressure”. Some of the village buildings were in extremely bad condition. Some people thought that these buildings in the village centre should be demolished and new and modern houses built in their place. What supported keeping traditions was that agricultural production was becoming a less significant factor in the economic life of the village while tourism would have increased business opportunities for residents. In view of the above, demolishing the village centre would have been a bad decision even if a number of rationales (e.g. lower cost, higher comfort level, more modern result) seem to support the idea of building brand new buildings.8

Finally, the approach designed to preserve traditions prevailed and using local and state funds the village bought and renovated a number of buildings in the city centre that would have been demolished.

---

8 The other side argued that modern buildings would better suit the needs of tourists.
otherwise. They remodelled the old school, a peasant house, the old parish and the main square. In many cases this was a more costly and complicated solution that demolishing and building anew. However, the renovated buildings now not only offer an aesthetic experience for the village and its residents but also a new functionality to organize festivals, shows and exhibitions.

The Bavarian government appreciated the village renewal project in Roßhaupten and stated that cultural life in the village received a new impetus that was in a large part due to the newly developed public areas and those renovated at very high quality; in other words those old, unused buildings not only were unappealing but also deprived the community of some important public space. The total cost of the renewal project was approximately EUR 3.2 million, of which EUR 1.75 million was funded by the government and EUR 1.4 million from private resources. As with other German and Austrian rural development projects, this particular one placed a huge emphasis on community participation in the detailed project design and the basic decisions for the renewal programme were based on horizontal cooperation.

Rural tourism

For small rural settlements, one of the primary sources of extra income is the improvement of local tourism. Tourist use of the attractions inherent in natural and cultural heritage in the countryside may improve the disadvantageous employment conditions of such regions. The income from tourism strengthens the local economy, thus playing an important role in the improvement of the quality of life and the elimination of regional-economic disadvantages in rural areas.

With different local conditions in the background, tourism cannot, of course, offer a solution to the problems of all small settlements. Based on the low service levels and high vacancy figures, it is clear that there are still plenty of opportunities to exploit. Another key fact to remember is that tourism has a multiplicator effect i.e. contributes to the increase of local farmers’ sales and revitalizes circulation in the local market. Measure no. 313 of the New Hungary Rural Development Programme allocates 16.6 billion HUF to creating new village accommodations offering quality services and developing guesthouses and services.

An international success: Cross-country riding centre, Midi-Pyrénées, France

Two organizations (Association Est Aveyron Développement Promotion – Association pour la Modernisation et l'Innovation Economique) joined forces to launch this project in the Midi-Pyrénées region of France. From a number of perspectives (geographic, historical, human resources), the area offers a number of opportunities to start various businesses. In the highly varied topography of the region, the services of the centre are designed specifically for green tourism and outdoor sports. The most important of these is cross-country horseback riding, which offers wonderful recreational opportunities for those longing for untouched nature. The new riding course also helps develop tourism. The French Tourism Office is responsible for project communication while private individuals also participate in the financing.

The final objective of the project is to create an innovative tourism product involving the representatives of equestrian sports, tourism experts and local governments. Outside the already established market of 10,000 cross-country riders, the centre expects to gain a 5 percent share and plans to reach 1000 guest nights per year. Officially launched in early 2004, the total project budget is EUR 200,000, half of which funded by EMOGA, approximately 30 percent by French public financing and the rest by private individuals.
Renewable energy resources

A significant demand is predicted that is suitable for energy production. In addition to offering new sales opportunities for agricultural products, biomass is a step in the right direction in terms of the national economy, energy policy and environmental protection. The spread of production systems based on renewable energy resources allows for the production of value added agricultural products. Developments in this direction are supported by the fact that Hungary has excellent natural capacities for growing energy grass and that only a fraction of the biomass produced is utilized. In addition, these harvested crops frequently spoil in the warehouses and are then simply burnt. Beyond the lack of the appropriate entrepreneurial culture and professional knowledge, the high costs of such investments have also prevented widespread application of this cutting-edge technology. Facilities producing renewable energy can be realized through the funds available under measure no. 123 of NHRDP (HUF 53 billion) and the LEADER Programme.

An international success: Self-sufficient energy system in Güssing (Austria)

Güssing is a small settlement with only 4000 residents in eastern Austria in the province of Burgenland, close to the Hungarian border. There, agricultural and forestry activities are conducted in spread-out, small areas. In terms of infrastructure, the village is on the periphery and has a large number of commuters as well as young residents migrating to the large cities. Another local problem was the energy supply system of the city. Without any local energy source, Güssing had to use imported energy at very high costs. These unfavourable circumstances lead city management to propose a new initiative in the 1990s. The main idea was to use wood, the locally available resource for energy production. Therefore, Güssing now uses local raw material, invites businesses, create new jobs and develops tourist projects on the new infrastructure as a result of these developments.

This small Austrian town has created a network of lumbering companies, suppliers and energy producers. The facility to produce heat from long distance was inaugurated in 1998. Initially, the woodchips available from the forestry service provided the raw material for the heat centre; later wood processing businesses also came to the region that now purchase energy from the heat centre. The biomass power station of Güssing was put into operation in 2001. It produces electricity (2 MW) and heat (4 MW), and the wood needed for its operation is provided by the local forestry alliance. The technological process was developed at the Technical University of Vienna. The facility also functions as a research institute; researchers and scientists work in the power station.

As a result of these developments, the settlement is now self-sufficient in terms of its energy needs. Significant professional tourism has developed in the settlement and even an advanced training centre was opened with lectures and seminars on renewable energy. Along the lines of ecology tourism, the region now has a training programme for unemployed women to work as tour guides showing visitors around the settlement and in the nearby facilities. A total of five employees worked as tour guides in 2006.

Service centres

A number of rural settlements face the problem of lacking even basic services. As a result of economic considerations, separate services are discontinued (e.g. postal service, cultural institution) while other services are difficult or impossible to get locally (development and application information,
An excellent initiative to solve these problems is that of local service centres providing some basic services at lower operation costs.

Measure no. 321 of the NHRDP provides for a fund of HUF 30 billion for local governments to develop areas with the help of entrepreneurs where they can provide some key services. These would include postal and office services, internet access, administration of civic matters, newsstands, lottery, and medication purchasing. Service centres are best to be established in vacant buildings in the village centre, which are to be saved and are known by locals as a community meeting place.

The Rural Development Programme facilitates the founding of service centres in hundreds of small settlements. A valid question, though, is who is to finance the operation of these centres in the future. The Hungarian strategy fails to provide an answer to this question. The most likely solution is that local governments have to come up with a financial solution to cover most of the costs related to these service centres. Another option is to operate these centres on a profit basis. The business profile of the service centres could be expanded to include revenue generating services that would make the whole concept viable (e.g. convenience store for the locals and selling local products for tourists, childcare services, registration station for dress and shoe mending, drycleaner point, small restaurant, coffee house, tourist information, small local museum, exhibitions, etc.).

An international success: A service and community centre in Jamptland (Sweden)
All services were discontinued in a small village of the province of Jamptland in northern Sweden. Among other shortcomings, they no longer had a school, a separate local government, or a grocery store. To counter this straight downward process, some locals used the LEADER Programme to organize a computer training for the villagers ages 7 to 70. As a result of this training, locals learnt how to communicate with the outside world and a team was born that decided to take care of the business of their village. They established a so-called telehouse (a sort of internet culturehouse) that later developed into a significant service centre with a new store and post office. The establishment also functions as a meeting place, a job search and tourist information point. To accomplish all these things, they only used vacant institutions, a lot of voluntary work and EU resources to revive their settlement.

Following the success of this service centre, the villagers with the entrepreneurial spirit launched new projects. They started the construction of a home for the elderly and began to distribute heavily to young families wanting to move out of the town. Young people responded well as the service centre made things needed for their everyday lives accessible and, among other things, sought out job opportunities for them. Locals founded a cooperative for Internet-based remote jobs. The service centre functions as the centre indirectly providing employment to approximately fifty individuals.
As indicated earlier, the LEADER Programme plays a crucial role in implementing the development paths outlined in the previous chapter.

LEADER is designed to shape democratic participation and community life with civilian, horizontal (entrepreneurs – local NGOs – local government – private individuals) and vertical (provincial government – regional/local government – citizens/local residents) cooperation. This philosophy is based on the belief that the transformation and the development path of a region cannot be defined externally. Local communities themselves have to decide independently about their future and to discern whether or not the concept is worth supporting. In this process, the central government can only provide advice and financial contribution.

Originally launched in the EU15 in 1991, the programme was designed to stop the impoverishment and aging of rural areas. With support from LEADER, ever since bottom-up rural development projects have been realized in over 1200 European micro-regions. Three generations of this initiative are registered: LEADER I (1991–1993), LEADER II (1994–1999), LEADER+ (2000–2006). As indicated in the chapter on the EU rural development practice and the Hungarian strategy, from 2007 the LEADER approach is going to be integrated in the general rural development policy of the EU. It means that EU supported national rural development programmes will integrate LEADER.

In brief, the LEADER Programme supports the integrated plans developed and executed by locally operating active associations. The programme is designed to encourage and support locals to realize the opportunities available in their immediate surroundings and to use those in the long run. Within the framework of the currently running LEADER+ Programme, initiatives designed to preserve the rural image and produce sustainable development are funded as local rural development plans. The programme is new in the sense that it compiles a region’s development strategy with the Local Rural Development Action Group comprised of the local governments, the specific region’s entrepreneurs and civilian organizations. Based on the prepared strategy, the decision-maker determines a budget allocation for the action group, which is then distributed to the end beneficiaries through local tenders. Considering its monetary funding ratio, LEADER only offers small amounts. LEADER’s real importance lies in its new philosophical approach to rural development, and in that it develops new skills in local communities that help access to resources of other programmes.

The first three axes of the New Hungary Rural Development Programme prepared for the cycle 2007–2013 practically cover the entire spectrum of rural development. With LEADER, the fourth axis, locals add their own innovative ideas to the developments they consider critically important for their own region’s progress. LEADER, therefore, is a sort of add-on axis that gives an extra push to the projects normally categorized under axis III.

* * *

9 Most probably creating consistency between the development strategies of the so-called administrative (statistical) micro-regions and the local rural development plans of the field-specific LEADER action groups.
Each and every action group is created as a result of cooperation between local governments, entrepreneurs, NGOs and private individuals. An important prerequisite is that within an action group the opinion of mayors and other local government officials cannot be enforced without limits; the civil sphere and entrepreneurs must have more than 50 percent of all votes. In practice, however, it does not always mean that in every single case the delegates of the local governments are the minority. Some NGOs may be under the influence of the mayor or some other local government official and, consequently, local governments actually have control over the action groups.

The applications received are judged by the Local Evaluating and Monitoring Committee (LEMC) elected from among the members of the respective action groups. A representative of the Agricultural and Rural Development Office (ARDO) must be present at the decision making sessions of the LEMC, and all on-site decisions must be approved by the Ministry of Agriculture and Rural Development. Actually, local decisions are very seldom overruled from the top and the approval of the decisions of the action groups is almost always automatic.

All you need to create an action group is a few enthusiastic, devoted locals who see potential in the LEADER Programme. Around them you can have a core group who can help with their work and ideas to prepare the local rural development plan and applications. If an action group’s application is a winner, it does not automatically lead to the immediate spending of any money. The financial resources are delivered to their end recipients through a local request for applications process. In an ideal case, more money is requested in the locals’ applications than the amount granted. Each action group has to name a responsible organization that acts as the managing director of the group. Such responsible organizations may be local governments or NGOs.

The most common criticism voiced in connection with the AVOP LEADER+ Programme was its excessively bureaucratic nature. Application within AVOP proved too complicated with much unnecessary administrative work. Hopefully the number of these administrative blocks will be reduced by a complete transformation resulting in a simplified system of application.

The winning 70 applications are granted HUF 90-100 million each under the AVOP LEADER+ Programme, of which only a maximum of 15 percent can be used to cover operating costs. The projects described in the local rural development plans are completed using the remaining amount. Action groups have to account for LEADER+ resources available through AVOP by 1 September 2008. By then the next LEADER call for applications will have begun.

The Hungarian LEADER Centre

The Hungarian LEADER Centre of Budapest plays a crucial role in the implementation of the LEADER Programme. The institute opened in the spring of 2006 after the Hungarian LEADER Public Association won the open public procurement tender of the Ministry of Agriculture and Rural Development. The Centre was created to provide sufficient amount of quality information, consulting, training and mentoring to action groups and implement the communications plan related to their work. In addition, the Centre prepares publications and studies about their work and that of the action groups and it maintains contact with the LEADER centres of other member states and the headquarters of LEADER in Brussels.
Over ten times more funding (approximately HUF 70 billion) will be available through the Hungarian LEADER Programme in the application period of 2007–2013 than that was available under AVOP LEADER+. No decision has been made as to how many application areas the program is going to cover under the new programme. The general expert opinion is that the LEADER Programme is going to have one or two waves in the next seven years, the first one expected in 2008.

No decisions have been made on the amount of funds, but what is most likely is that local action groups can count on much more substantial funds than are available under the AVOP LEADER+ programme. There is a great opportunity in that depending on the number and populations of the villages included, funding of up to HUF 0.5–1 billion will be available per application. However, bigger action groups will have to operate from the increased funds. Compared to the previously somewhat experimental programme, a change in quality is expected. However, LEADER will remain a somewhat minor initiative in order to provide solutions for all the issues of the countryside.

But what can we do to be well prepared and use the funds available through the LEADER Programme in a targeted manner?

– “Mandatory development options” –

The LEADER Programme is often called the programme of “unlimited freedom”. The term is based on the assumption that each action group can freely decide on their own as to what kind of developments to include in their local rural development plans. This is one of the great advantages of LEADER, as no one knows better than the locals what is worth improving at a given settlement.

The freedom of choice for LEADER action groups is an important value to be preserved. At the same time, these developments must be synchronized with some central elements of the New Hungary Rural Development Programme. For this reason, DEMOS Hungary Foundation proposes to introduce the concept of “mandatory development options”.

The main idea is that the action groups applying for LEADER funds would have to integrate two of the five development paths described above (rural business development, village renewal, rural tourism, renewable energy resources, service centres) in their local rural development plans. Each action group can decide individually which type of developments to implement in their respective region. The development within the mandatory development options does not prevent the action group to integrate any other development in their application process. For example: if a specific action group believes that a new silo or a distiller house and a training programme for young farmers are the key elements of their
success, they can freely apply to implement these objectives. However, they would have to renovate the main buildings of the village or establish a service centre to improve the quality of local life. The five main development paths are general enough to provide enough room for movement to the individual action groups.

The system of mandatory development options offers a guarantee primarily to political decision makers that such development types will definitely be completed within the framework of the LEADER Programme, which supports non-agrarian economic development and the increase in the quality of rural life. The action groups should have little difficulty integrating the above mentioned targets into the local rural development plan as past experience shows that many of the applicants, by default, consider the options of these types of development projects. With mandatory development options, politicians would receive guarantees that priority developments will be completed during the Hungarian application of the LEADER Programme.

– Communications campaign to extend those involved in the programme – One of the top priorities is to inform the widest range of potential applicants of the next LEADER tender, the program itself, and the application opportunity. The action groups having participated in the AVOP LEADER+ Programme are, of course, at an advantage. They have useful information and considerable experience. Therefore, we need a marketing campaign before the next call for application that would attempt to draw in communities left so far untouched by the LEADER Programme. The best propaganda is the news on developments already underway. Although one may hope that the good reputation of the programme would spread on its own, it would be a grave mistake to take this for granted. In order to expand the circle of those involved, we need a well thought out communications campaign targeting local governments, entrepreneurs and NGOs by the second half of 2007 or early 2008 due to the expected date of the call for applications in 2008.

– Preparation, training, consulting – In addition, a lot depends on what is included in the local rural development plans of the action groups applying for the LEADER funds. In order to efficiently exploit local capacities, knowledge, and innovation, an advanced and well-organized consulting system must be in place. The task before consultants is twofold: on one hand they can play a crucial role in developing local rural development plans, and on the other, they can help applicants pass any administrative roadblocks arising from the new system of procedures. It would be worthwhile to organize preparation and training sessions for those interested in the new LEADER Programme. Based on its objectives and tasks, the Hungarian LEADER Centre appears to be suitable for coordinating such trainings, as well as organizing and coordinating the work of a consultant network.

– A website on best international practices – The availability and flow of information and innovative ideas is a key to the success of LEADER. Undoubtedly action groups can greatly benefit from the applications completed previously, the experience of micro-regions of other countries, and even the development concepts of nearby action groups. The Hungarian LEADER Centre deserves credit for making available the local rural development plans of all funded Hungarian action groups. The writers of new local rural development projects would definitely be highly motivated if, similar to the example of the Hungarian recipients, the experience of other EU countries (especially the recently joined former East Block countries) should be available to the potential applicants in Hungarian.
The final objective: a change of approach and culture

Perhaps the greatest advantage of the LEADER Programme is that it contributes, in an invisible manner, to a change of approach and culture of those working on rural development. This programme forces all interested parties to realize that winning EU funds requires cooperation. The lack of trust between settlements would definitely not bring any results in terms of the LEADER Programme. There is a chance for developments with deep impact only if the settlements of a specific geographic region, the leaders of the local governments of the villages, entrepreneurs and NGOs join forces. Cooperation is, therefore, the key to this initiative. The opportunity to receive funds and carry out developments offers the incentive that can spread the culture of cooperation and of thinking and planning together. Successful applications and materialized results will contribute positively to overcoming the lack of trust between neighbouring settlements. If the latter one is completed, it would be a real gain for LEADER and integrated rural development.

As with rural development in general, it is also true for LEADER that it is not simply about meeting application goals or reaching economic objectives. Integrated rural development and LEADER action group building has to be a process that strengthens local human and community resources, local leadership, entrepreneurial culture, innovation, and people’s skills for targeted and efficient cooperation. As a result, local communities can have more power to shape their future than ever before. If the state can create the framework for complex rural development and the local communities correctly outline the development paths of their own region, the residents of rural settlements can make their own contribution to increase their opportunities for social mobility and create a liveable and sustainable environment for themselves.
9. BIBLIOGRAPHY


NEMES, GUSZTÁV – PÁZEKAS, SZUSZANNA (2005B) Közéleti LEADER-jellegű program Magyarországon. AVOP Leader+ Köszönők elsajátítása tananyag. PROMEI-Faluműhely Alapítvány – SZIVA – ZIVA, 2005. 9.4. fejezet (pp. 360–381.)


