

# EU Cohesion and the promotion of partnership a comparative perspective

## Scotland and Hungary

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### - I. Introduction:

Starting from the empirical observation of high levels of absorption of EU Cohesion Funds but strikingly low levels of substantive change in regional cohesion levels, this paper offers a contextual comparative analysis of regional development policy in Scotland and Hungary. Based on theoretical frameworks dealing with Europeanization, new regionalism and the developmental state, this article explores the roles of administrative arrangements and agency through interpreting development strategies and administrative structures and planning. Henceforth, this paper explores the approaches to partnership adopted in Scotland and Hungary in relation to EU Cohesion funds. It places two regions under its focus, namely Western Scotland and North Eastern Hungary, which have faced economic decline in parallel to industrial decline. The objective is to ascertain the extent to which administrative arrangements for the management of EU Cohesion Funds impact on, first, the types of economic development projects and, second, the kinds of public, private and voluntary organisations which receive funding. Thereby, this article offers a comparison between one old and one new EU member states in the area of regional studies and development: how do the administrative arrangements for management of EU

Cohesion funds differ with respect to stakeholder involvement and issue prioritisation?

We adopt two perspectives in order to elaborate on this research question. The first one relates to public administration aspect of distribution of funds. This is a valuable effort especially if we consider the centralization/decentralization aspect of distribution of funds our cases. Our first case Scotland is a part of the devolved United Kingdom and in the second case Hungary has a very centralised state structures whereby regions are weak and do not live up to the standards of NUTS region. In Hungary, there are too many administrative units involved in the otherwise centralised structures in Hungary at the regional, local and central levels. In Scotland, however, structural funds are administered for two geographic areas Highland & Islands and the rest of Scotland known as Lowlands & Uplands Scotland.

The second perspective is the development perspective that revolves around post-industrial poverty and its implications. In the Hungarian case the implications of such poverty are explicit in underdevelopment levels in rural settlements cut off from the rest of the country due to the lack of transportation links that also affects the access of residents' to employment and education opportunities. While these rural pockets of poverty are spread out, we come across these types of settlements mostly in the Northeastern part of Hungary. In Scotland, however, along with pockets of rural poverty, there also occurs inner-city poverty. In both cases the solution for underdevelopment related poverty seemed to have focused on around infrastructural investments. While these our cases have had variation in their experience with access to cohesion funds, infrastructural investments do not seem to alleviate underdevelopment. This may be related to centralised decision making in both cases as well as the relative importance that grand projects gained vis-à-vis small-scale

local development initiatives. Yet, in the case of Hungary, centralised decision making and local development initiatives seem to be mutually-reinforcing development if they occur together.

Overall, one other reason that makes our case selection interesting is the presumed divergence in two cases regarding the level of entrepreneurial skills amongst the population. Especially, local development oriented regimes prioritize enhancing these skills in order to foster sustainable development. In the case of post-communist countries, the lack of such skills has been considered a result of communist legacy that demoted individualism. Yet, in a case such as Scotland, which had been the cradle of capitalism, if lack of entrepreneurial skills continues to be a problem, in that case small-scale development initiatives may demand more than entrepreneurialism. The comparison between Hungary and Scotland will also concentrate on this aspect of the use of cohesion funds in its assessment whether they lead to development or not. Below, looking into the case of Scotland and Hungary, we portray issues of underdevelopment and solutions under the scope of EU funds.

- II. Case 1: Scotland:

Scotland has a long and relatively successful history of accessing Structural Funds from the EU just about all of the country has been part of a European regional programme at one time or another. Between 1975-2006 around £4bn (at 2000/01 prices) has come to Scotland from EU Structural Funds.<sup>1</sup> The majority of these funds have been used to support infrastructure projects and economic development programmes in Western Scotland including the Glasgow conurbation. This is the most populous area of Scotland accounting for around 45% of the population with arguably the most entrenched economic and social problems.

In 1988, Strathclyde European Partnership (SEP) was established by the local authority as a Programme Management Executive (PME) to manage and administer EU funds in the region and to maximise future funding from the EU. SEP was one of the pioneers of the partnership approach to economic development, and its success in improving partnership working has been recognised by the European Commission.<sup>2</sup> SEP acted as a facilitator by bringing together over 200 different organisations and groups for a common purpose, the promotion of economic development in Western Scotland. The local partnership approach to managing and administering Structural Funds pioneered by SEP became a template for other regions in Scotland. However, with the enlargement of the EU in 2004 and the subsequent reduction in EU Structural funds to the 'old' member states in Scotland there was a move away from the locally based administration and management of the EU regional policy funds to a more centralised approach. In the 2000-2006 funding period, there were 5 PMEs in Scotland in the current funding period there are only two, one for the Highland & Islands and one which covers the rest of Scotland. The rationale behind this move was to reduce administrative costs in order to devote more resources to economic development, however there was a risk that it would diminish the level and type of economic development projects supported by EU funds by reducing the scope for bottom-up project development. Under the circumstances of decreasing resources, but increasing economic problems, due to the global financial crisis and long-term economic decline in the Scottish regions, it is crucial to inspect the kinds of stakeholder approach and issue prioritisation in effect to long-term economic development in the Scottish regions.

For the period 2007-13 Scotland has been allocated €820m (£738m) from European Structural Funds approximately half the amount awarded in the previous

budget period 2000-06. The total funding made available to Lowlands and Uplands Scotland (LUS) for the period 2007-13 was around €645m (£580.5m) with 57% allocated to ERDF and 41% to ESF projects. The majority of these funds have now been awarded 81% in the case of ERDF projects and 98% of the ESF money. Projects based in Western Scotland (including Dumfries and Galloway) have received 16.4% of the funding (16.3% for ERDF and 16.6% for ESF) however since many nationally based organisations have received funding there will be additional spending in the region for example Scottish Enterprise received £95.4 m around 29% of the ERDF allocation and clearly some of that money will be spent on projects which support and promote economic development in Western Scotland. However compared to the previous funding period it appears that Western Scotland's share of the funds in Scotland has declined. Between 1976-2006 Western Scotland directly received around 38% of the total funds awarded to the whole of Scotland.<sup>3</sup> This has now fallen to around 16% of the funds allocated to Lowlands and Uplands Scotland a much smaller share of a significantly reduced allocation.

It appears that national public organisations such as Scottish Enterprise and the Scottish Government themselves have more control of the Structural Funds compared to the past and that to some extent this has led to locally based voluntary and social enterprise organisations being squeezed. In part, this was inevitable given the change in regulations which meant that project funding was set at a minimum annual cost £200 000. The average award to the voluntary sector in Western Scotland during the 2000-2006 was £176,312 whereas the average size of project award was £328,576.<sup>4</sup> The implication is that only the larger voluntary and social enterprise organisations would have projects of a sufficient size to meet these requirements whilst the smaller locally based voluntary/social enterprise organisations would be

unable to act as a lead applicant as they have done in the past. The increased centralisation of the decision-making processes means that the Scottish Government has controlled the development of the programmes for 2007-13, rather than the partnership approach adopted in previous programmes. The Scottish Government took the view that the reduction in the level of Structural Funds meant that increased central control and co-ordination was the best way to maximise the economic development impact.<sup>5</sup> This is perhaps administratively more efficient, but did run the risk that it will diminish the level, and type, of economic development taking place in Scotland. The new delivery structure may reduce the scope for bottom-up project development. The key question is whether this has happened in practice now that most of the funds have been allocated. What sort of organisations received the funding?

The ERDF programme for LUS has 4 priorities. These are namely research & innovation, enterprise growth, urban regeneration and rural development. In terms of the various projects funded under ERDF the vast majority of the funds has been awarded to public sector organisations, including Local Authorities, Universities and Economic Development Agencies at both a national and regional level. Organisations based in Western Scotland have been allocated £54.9m of which 6% went to non public sector organisations, for LUS as a whole the proportion was even lower at just 4% of the total.<sup>6</sup> This is perhaps not really that surprising given that ERDF tends to involve infrastructure type projects and traditionally the money has tended to go to public sector organisations. The voluntary/social enterprise sector has relied mainly on ESF for finance. Initially 3 priorities were set for ESF spending, but in 2010 ESEP decided to use the unspent money in Priorities 1, 2 and 3 and transfer it into a new

Priority which would bring together needs and opportunities at a local level through local strategic pipelines. Table 1 shows the ESF allocation in LUS.

Table 1 - ESF Allocations in Lowlands & Uplands Scotland 2007-13

| ESF Priorities                           | % Share of Total | % to NonPublic Sector |
|--|------------------|-----------------------|
| 1. Progressing into Employment           | 48.4%            | 22.1%                 |
| 2. Progressing Through Employment        | 22.7%            | 19.0%                 |
| 3.Improving access to Life Long Learning | 5.1%             | 20.0%                 |
| 5. Strategic Skills Pipeline             | 23.8%            | 15.3%                 |
| Total                                    | 100%             | 19.6%                 |

Source: ESEP <http://www.esep.co.uk/01-esf-programmes-intro.html>

Around 20% of ESF money in LUS has gone to voluntary/social Enterprise organisations however the majority of the funding has tended to go to nationally based organisation rather than locally based ones. such as (few examples) In Western Scotland voluntary/social enterprise organisations accounted for just 7.1% of ESF awarded to projects in the region.

The allocation of Structural funds in LUS would seem to support the hypothesis that the 2007-13 period has seen centralisation of funding more concentrated in national and public sector bodies at the expense of local voluntary/social enterprise bodies. It would seem fair to conclude that not only has there been a reduction in the level of support from the EU, but that in turn has resulted in a reduction in the diversity of organisations involved in economic development particularly in Western Scotland. What is unclear at the moment is the impact that this has had on economic development in Scotland. This will be tackled in the next stage of this research programme.

- III. Case 2: Hungary:

Between 2004-2006, Hungary was one of the leading countries in terms of the absorption of Cohesion Funds.<sup>7</sup> By 2010, Hungary accounted for 6.48% of European Union payments and was at the fifth place among EU countries. The Commission commended on the increased speed of operative programme completion in Hungary, resulting in higher-than-expected 62% absorption for 2007-2013, ‘extremely satisfying’. Hungary received a total of 920.44m euros from the EU Cohesion Fund, the European Regional Development Fund and the European Social Fund between 2007 and 2009. Hungary received EUR 805.27bn from cohesion and development funds, the third most in the EU, but the remaining payment from the social fund would only place the country in the top nine as of December 2009. The EU has also praised how the government used cohesion politics to deflect the harmful effects of the economic and financial crisis, but warned that Hungary should pay increased attention to the long-term goals of programs. At the same time, Hungary’s substantive cohesion indicators continue to show high and growing levels of disparity between the regions.

Clearly, the indicators confirm that while Hungary managed rather well attracting EU funds, it failed to convert this into effective development especially in those regions, such as North Eastern Hungary, which has been struggling with industrial as well as agricultural decline since the transition. Yet, an earlier local development programme, which targeted underdevelopment in the North Eastern region Cserehát and ran from 2004 to 2009, seemed to have delivered results in terms of local development – especially considering the development of entrepreneurial skills in the region. Thereby, bearing in mind the institutionalization of cohesion policy in Hungary, centralized decision making structures and the case of underdevelopment in a remote region, we can consider two hypotheses. The first



hypothesis suggests that *the more public policy-making is centralised the more effective it will be for regional development*. This is due to the capability of centralised decision-making to divert money into major infrastructural investments and hence create jobs in straggler regions. The traditional view of development plays a certain role in these explanations and hence identifying the right institutions is a technocratic expert business and it should be the prerogative of states and different developmental organisations to impose these institutions on the subjects of development.<sup>8</sup> Yet, the Hungarian case shows that along with centralisation, there comes a plethora of organisations without well-defined roles.

In contrast, the collaboration hypothesis suggests that *the more collaboration there is among local, regional, and central stakeholders, the stronger regional development will be*. This is due to the impact of collaboration on self-awareness, shared identities and concerns of participants. The transition from sectional to collective representation is critical for development. In this respect, Amin and Thrift note that if participants are mutually aware that they are involved in a common enterprise over a commonly held agenda, their co-operation will trigger an institutional thickness stimulating entrepreneurship and local embeddedness. Hence, what is of most significance is not the presence of institutions *per se*, but rather the process of institutionalisation that underpins and stimulates a diffused enterpreneurialship and guarantee high levels of interaction amongst the institutions.<sup>9</sup> Thereby, lack of social capital and the related entrepreneurial skills wage a direct impact on underdevelopment and local development should aim at solving these issues in considerations of funding decisions. The tables below present the stakes we employ for discussing the impact of these hypotheses.

Table 2: How do we Measure Centralised Policy-Making? (IV – Hyp1)

| <i>Who?</i>   | <i>How?</i>  |
|---|--|
| <ul style="list-style-type: none"> <li>• No Private Actors</li> <li>• Only Public Actors</li> </ul>   | <ul style="list-style-type: none"> <li>• PM in charge</li> <li>• Governance through hierarchical means</li> <li>• Top-down steering</li> </ul> |
| <p><i>Where?</i></p> <ul style="list-style-type: none"> <li>• At the Public (state) level:<br/>National Development Agency<br/>and Development Policy Steering<br/>Committee</li> </ul> |  |

Table 2: How do we Measure Multi-level Collaborative Policy-Making? (IV-Hyp2)

| <i>Who?</i>  | <i>How?</i>  |
|--|--|
| <ul style="list-style-type: none"> <li>• Public (state), and Private (civil society and the economic actors) actors</li> </ul> | <ul style="list-style-type: none"> <li>• Horizontal inclusion, vertical integration</li> <li>• Partnership</li> <li>• Shared identity</li> </ul> |
| <p><i>Where?</i></p> <ul style="list-style-type: none"> <li>• Local, county level and central structures</li> </ul>            |  |

To follow up this introduction, the sections below debates first the main tenets of development policy in Hungary and later present a case study of local development from North Eastern Hungary, Cserehát Development Programme. In effect, this section depicts the discrepancies between local development priorities and the centralized method of distribution of funds.

*- Too many and weak actors in planning:*

Europeanization of regional development policy has indeed triggered several changes in Hungary in the planning process and has led to the partial inclusion of some new actors, but the main effect of this policy was a growing centralisation of development policy-making. The Hungarian local governance structures show that creating a plethora of regional structures could not overcome the isolation of smaller municipalities and failed to nurture a ‘multi-layered civil society.’ There are many

independent mayors in small settlements. While a certain group of them might be affiliated with political parties, independent local governance often means isolation of the community.<sup>10</sup> Transition to a multi-layered civil society, however, would require overcoming the isolation of smaller municipalities and their involvement in the regional strategy formulation.<sup>11</sup> Reflecting on local governance in the Czech Republic, Myant and Smith considered fragmented municipalities a lasting sign of post-communism. Their isolation caused by their jealously guarded autonomy, weakness to play much of a role in strategic decisions, and complaining of lack of support from above were, accordingly, the manifestations of post-communism. Myant and Smith have also considered the low level of “partyisation” at the local level a condition that served further to separate the local governments from effective political influence.<sup>12</sup>

In effect to lack of multi-layered civil society is the strength of central governments. In Hungary, the power of the central government has been traditionally very strong at the expense of regional and local autonomy. As a response to the highly centralised state of the socialist regime, after the democratic transition in 1990 one of the first laws introduced by the new, democratically elected government was the ‘Act on Local Self-Government’, which allowed creating a fairly autonomous new tier of government. As a result, more than 3200 local governments were formed, holding direct elections and receiving wide competences also in financial matters. However, the financial resources available on the local level remained quite low compared to the administrative and infrastructural duties devolved to the municipal level and most localities remained heavily dependent on allocations from the central government. At the same time, these reforms have weakened also the formerly potent county system, which has been the traditional form of regional government.<sup>13</sup>

The initial signs for EU-compatible planning process date back to the “Regional Development Act” of 1996 in Hungary. This act gave a momentum to the elaboration of a regional policy that relied on EU-compatible regulation and decentralised institutional and financial systems.<sup>14</sup> While the 1996 Act sought decentralisation of local governance, it also brought together a new hierarchy of institutions related to regional development. At the top of the hierarchy was the ‘National Regional Development Council’ with an ambiguous job description. It operated as a high-level forum for negotiations as well as the representation and assertion of interests. The Council functioned as an organisation to prepare decisions, make proposals, give opinions, and to co-ordinate and make decisions, and consequently is also involved in the formulation and enforcement of regional development policy. The Council was also the co-ordinating body for national, regional, county and small regional ideas as a democratic body. Below, the Council came other organisations such as the Regional Development Council (RDC), County Development Council (CDC), and Territorial Development Council.<sup>15</sup>

Kiss noted that the most important aspect of such de-centralisation was such that the regional actors learnt about the EU rules of tendering procedure, the practice of accounting for financial support and the practice of monitoring.<sup>16</sup> Yet, the experience of the population of micro-regions showed that they could not quite generate such social and cultural capital without the assistance of mentors, and hence the impacts of decentralisation did not necessarily permeate enhanced grant application ability in the region. The CDCs, especially, remained invisible and out of reach for many in smaller settlements.<sup>17</sup>

Overall, local governance attempted to maintain the concept of “partnership”, relating to the horizontal inclusion of relevant social actors and the vertical integration

of the four-tiers (locality, micro-region, county, central state). The CDC was planned to be the brain of this development scheme. It originally consisted of the representative of the Ministry of Agriculture and Rural Development, the Chairman of the County General Assembly, the Mayor of the town of county rank, the representatives of the economic chambers, and the representatives of seven local agglomerations. In addition to these voting members, members without voting rights were regularly invited to its meetings. Despite its structure, the CDC could only formally guarantee a corporatist format of decision-making.<sup>18</sup> Starting with the Orbán government in 1999, the influence of the local governments decreased in the CDCs at the face of increasing central government interference and infiltration from various ministries and authorities.

On its course to EU accession, regional policy reform has been among the most hotly debated issues in Hungarian party politics. On the one hand, experimentation with multi-level governance forms had a role in bringing about ‘regionalism without regions’ and the perspective of EU accession strengthened evolving alliances between central and local state actors.<sup>19</sup> Therefore, the EU played a considerable role in changing, and in the case of Hungary, in creating regional institutional landscapes by contributing to the development of regional institutions with the capacity to design, implement, administer, and monitor multi-year integrated development plans. The role envisaged for the state in this respect was primarily that of co-ordinating, helping and monitoring the making and implementation of regional development policies. Despite all irregularities, in the pre-accession period, local and regional actors in the new member countries acquainted themselves with diverse elements of multi-level-governance (MLG) and received vocal support from the EU Commission to develop their capacities. Yet, as the accession drew closer, the

Commission disregarded all previous references to MLG, creating and/or upgrading local and regional capabilities, and gave the prerogative to control regional policy making and implementation at the central level.<sup>20</sup>

On the other hand, even though most actors regarded the Hungarian regional structure as inefficient, the vested interests of the different actors hindered a comprehensive reform. Overall, reforms provided for a minimum of EU compatibility while the coexistence of regions and counties resulted in new anomalies and parallelisms. In practice, disintegration co-existed with the emergence of the new regional level, while competences and functions of these regions vis-à-vis the counties remained unclear. Given this background, the problematic enforcement of the principle of regionalism remained a lasting legacy affecting the efficiency of cohesion policy even after EU membership.<sup>21</sup> The administrative and policy legacy of this picture was acute and reflected itself on the functioning of the National Development Agency.

*- National Development Agency and the Distribution of Funds:*

In Hungary, managing the EU funds referred to two different logics imbued by, first, traditional bureaucratic hierarchy and, second, management concepts. Initially, the line ministries administered the EU funds, but this led to the creation of double structures within the ministerial administration and frequent conflicts between the traditional bureaucrats and the managers responsible for EU projects. These conflicts were often aggravated by unclear chains of command and institutional instability as well as fluctuations in legislation, organisational setup and staff. Inevitably, management of funds faced an accountability gap whereby all actors avoided ultimate accountability on the bureaucratic side and political decisions

remained scarce.<sup>22</sup> In order to solve these problems, in 2006 the government upgraded the National Development Office to a National Development Agency (*Nemzeti Fejlesztési Ügynökség* - NFÜ) and centralised the management of sectoral programmes into a single organisation. The new structure was beneficial as long as it could solve the conflicts between managerial and bureaucratic principles in handling the EU funds.<sup>23</sup> Notwithstanding its success, however, it led to the politicisation of cohesion policy. Instead of conflicts within the line ministries, the new problem was distributional conflicts between the sectoral policy-makers and the programme managing authorities (*Irányító Hatóság* - IH). The IH increasingly gained power and increased their staff, while the local and regional capacities built up before the accession remained rather unused.<sup>24</sup> At the same time, IH, in charge with the distribution of funds, also strengthened their positions and used the line ministries as service providers in project application processes.<sup>25</sup> Confusing the process even further, the IH also remained in charge of implementation and oversight of programmes. The result was weakening of policy planning at the sectoral level as the IHs have focused mostly on technical management and evaluation of programs, but not with the substantive policy issues at stake.<sup>26</sup> Furthermore, due to both having cold-feet regarding participation of stakeholders in development and its effort to exclude the opposition from waging an impact on its development planning, the government kept the NFÜ out-of-reach from legislative oversight.

Hence, under Gyurcsány's premiership, the NFÜ was in charge of the cohesion policy funds (European Regional Development Fund, Cohesion fund, and the European Social Fund), Hungarian national public contribution to such funds as well as the European Agricultural Fund for Rural Development and the European Fisheries Fund. It was not only isolated, but also self-contained. It established an

elaborate hierarchy of decision making with the highest body, National Development Council, composed of representatives from the Regional Development Councils, the Prime Minister, the delegates of the Economic and Social Council, Ministers and the Development Policy Steering Committee members. The Council was to meet once per year. A close inspection of its decision-making structure, nevertheless, showed that the real preparatory, proposing and co-ordinating body was the Development Policy Steering Committee (*Fejlesztéspolitikai Irányító Testület - FIT*), which excluded the representatives from the Regional Development Councils as well as the representatives of the Economic and Social Council and worked as an exclusive club of influential politicians from the governing parties.<sup>27</sup> As such, while NFÜ became the main hub of development policy and supervised by a government commissioner for development policy, under the guidance of the Development Policy Directorate it was essentially a political body headed by Gyurcsány and staffed with important political figures of the ruling coalition. Thereby, rather than following the pattern proposed by the multi-level governance framework which would have implied devolution towards sub-national level, the institutional set-up of Hungarian regional and development policy remained very much reminiscent of weak regional structures controlled by strong executive cores.

Overall, the MSZP-SZDSZ government in Hungary put explicit emphasis on development in straggler regions with the help of EU funds. ‘The New Hungary Development Plan 2007-2013’ of the Hungarian government and the ‘National Development Policy Concept’ both have explicit emphasis on sustainable development of rural areas using the EU funds. These documents promise strengthening regional cohesion, job creation, improvement of regional competitiveness and regional realignment as the goals of regional development



between 2007 and 2013.<sup>28</sup> Alongside, the ‘National Agricultural and Rural Development Strategy 2007-2013’ also allocates importance to developing the life quality, income and employment positions of the rural population. As general as these goals sound, in order to achieve them the strategy calls for (1) strengthening the economic potential of rural settlements and development of businesses; (2) sustainable utilisation of cultural and natural values, and the development of communal life in the countryside; (3) the development of local human capacity and expanding the knowledge and information base of entrepreneurialship, planning and execution.<sup>29</sup> Let us see below, whether the partnership and subsidiarity elements were in place in Hungary to support these goals.

*- Partnership and Subsidiarity*

The role the MSZP-SZDSZ government projected for Regional Development Councils was minimal. The New Hungary Development Plan rarely referred to the RDCs. Extending the government’s centralist tendencies, the Plan stated that ‘participation of the Government in the regional development council granted professional and government control of the decisions. The Government bore ultimate responsibility for the implementation of regional programmes’.<sup>30</sup> The whole system of decision-making for the use of cohesion funds was built on the assumption that the Prime Minister would have a strong authority in running the National Development Council and the Development Policy Steering Committee and could control the RDCs. Yet, the Prime Minister could easily be crippled in control of these bodies in cases of political crisis and, indeed, the position of Gyurcsány was drastically enfeebled amidst the political crisis caused by a leaking of one of his speeches before the Socialist party’s leadership in 2006.<sup>31</sup> Moreover, the system of decision-making

was far from the control of the Parliament and the Parliament could not have much say in auditing the Operational Programmes either.<sup>32</sup> The delegates of the RDC and representatives of the local governments, the delegates from civil society, groups along with the representatives from ministries and management authorities, were to monitor the running of the operational programmes, but in fact they were rather disposed to discuss decisions rather than be involved in the making of decisions.

Still, centralisation did not suggest faster decision-making and overall the structure of Hungarian cohesion policy-making demonstrated the distance of the political elite from the developmental problems at the micro-level.<sup>33</sup> On the local level, this has led to the emergence of a new type of ‘project elite’,<sup>34</sup> who consists mostly of consultants and developers acting as brokers between the local dimension and higher levels of governance. Overall, the decision to implement cohesion policy in a centralised manner reflected continued uncertainty about the status of the new regions and their relationship to the self-governing counties. Initially, a far-reaching reform of public administration, proposing the creation of directly-elected regional governments with competencies in the area of regional development, was a major goal for MSZP-SZDSZ. In the end the proposed reform did not take place among other reasons due to the unwillingness of the Commission to waste time dealing with unprepared regions in the implementation of cohesion policy.<sup>35</sup> At the time of writing, the impasse over regional reform in Hungary remains.

In sum, the management of EU funds in Hungary has reinforced centralisation. The government’s leverage in deciding over the allocation of regional development funds over the years remained constant.<sup>36</sup> The Hungarian government created a strongly centralised structure on the central level, where all the managing authorities were concentrated within the NFÜ and worked autonomously from the line ministries.

At the same time, sub-national level remained weak whereby the Regional Development Agencies and Regional Development Councils were merely partners of the state in implementing Regional Operational Programmes. Particular to the Hungarian case was a complex set-up of development-related institutions, which were distant from local and regional structures and, hence, cannot create social capital. The distribution of EU cohesion funds in Hungary performed institutional congestion and political strife at the expense of the regional development with the cohesion funds. The national governments have been the clear winners of the new Cohesion and Structural Fund policies, as they control the majority of sectoral programmes without much formalised bottom-up accountability whilst having an ample room for to influence regional programming.<sup>37</sup> Therefore, as Pálné Kovács *et al* suggested ‘concepts such as regionalism or partnership have been used as tools for the re-centralisation of the policy process and for resource distribution alongside clientele and clique interests’.<sup>38</sup>

These institutionalisation attempts, however, demonstrate the distance of the political elite from the developmental problems at the micro-level. A complex set-up of development-related institutions, local and national structures does not create social capital as long as they are distant from the daily realities of people in the regions. The research over poor settlements in France and the US shows that organisational density does not override isolation of the poor. In case of lack of efficiency and co-ordination between the myriad public and semi-public organisations – implanted in regional development, and the structural inability of regional development programmes, a notion of passivity and apathy will be common among the most dispossessed. Moreover, the elites of such institutions may stand as nets between the poorer people and the outside world as was the tendency in certain development projects presented

above. Dependency and dissatisfaction may thus form a vicious cycle in which each reinforces the other. The prevalence of development institutions may even accentuate a negative reputation for a region – fuelling the spiral of stigmatisation decrease social integration.<sup>39</sup> The following quotation from an interview with a stakeholder in the daily *Magyar Nemzet* illustrates the way common people regard this picture: “The real cooperative spirit to guarantee that the perseverance of the small settlements should make sure that no one’s interests are overshadowed. For that there is a need for the freedom of local creativity rather than regulation at the central level. This freedom should intensively attract the residents of the localities in bringing out the decisions related to their personal lives.”<sup>40</sup> Following this logic, let us have a look at the importance of social capital in fostering micro-development and consider the discrepancy between the centralised distribution of funds and requirements for local development.

- *Social Capital, Rural Development and Some Examples from the Field:*

The literature on regional development refers to notions such as social capital<sup>41</sup> and institutional thickness. These refer to a plethora of institutions and partnerships of different kinds in co-operation towards developing initiatives between the levels of government and the organisations from the private and voluntary sectors. Often as a condition for the financial support, the EU also propagates notions of social capital in effect to local development. As Putnam argued, ‘economics does not predict civics, but civics does predict economics.’<sup>42</sup> Adam *et. al.*, nevertheless, have concerns over the concept of civic tradition, *civiness* and civic involvement, and whether they are equivalent to the notion of social capital or not.<sup>43</sup> As an example, they ask if membership in choirs, bird-watching associations or other interest groups

contribute to the development of entrepreneurialship and innovation. Despite the conviction of Adam *et. al.*, these projects can have a certain contribution to rural development if they could promote social capital.

If we were to take social capital as a “lubricant” of network organisations, one of the problems of transition or post-socialist societies appear to be connected with the domination of bureaucratic organisations. That is, with the insufficient diversity of *ad hoc* organisational forms, bureaucratic types of organisation are maintained even in those areas where different forms of organisation and management should have been developed. As we showed in the section above, the composition of local and regional governance structures in Hungary are examples of such bureaucracy. A higher level of development presupposes project-based organisations that are not hierarchical, but with flexible models of leadership and communication.<sup>44</sup> In parallel, shared identity and concerns of the state, civil society and the market forces can positively influence the development processes. In this regard, social capital facilitates productive activity and other forms of capital, and can be wielded as actors pursue their given objectives.<sup>45</sup>

In this context, the Cserehát Development Programme from North Eastern Hungary presented an interesting case study. Cserehát has been a primary example of rural poverty in Hungary, where deprivation has culminated in generating and fostering a perennial form of poverty.<sup>46</sup> In such societies not only that the adult population loses its traditional means of well-being, but also there remain no successful examples for the youngsters to follow in order to break out of poverty. The new generations cannot absorb work habits<sup>47</sup> and a large number of the children living in poverty do not have – in Bourdieu’s terms – the possibility of “pedagogical contract”.<sup>48</sup> Hence, the structural features of poverty instigate a culture of poverty – a

form of habitus – forging poverty perennially.<sup>49</sup> However, Ladányi and Szelényi do not believe that the culture of poverty is the reason of poverty. Instead, they state that this is a response to poverty that the needy foster while dealing with the daily hardships of poverty. Its roots are not in ethnicity or tradition but in the life experiences of the extreme poor. And once this culture (or habitus) is in place it gains relative autonomy, and thus facilitates the reproduction of the conditions of poverty. That is why fostering an appropriate institutional framework to displace poverty with development remains a challenge for development policy-makers.<sup>50</sup>

Cserehát is one of the least-likely cases for development among the Hungarian regions. This is due to the traditionally high unemployment rates in the region caused by acute de-industrialisation and decline in agricultural production since the beginning of transition to capitalism. The loss of additional income drawn from the agricultural activity under communism, which was particularly important for a large part of families' total income in rural areas, the break up of the large collective farms and the confusion on ownership rights led to a considerable drop in earnings of the rural population.<sup>51</sup> The region is also a host of “rural ghettos” populated by the “decapitated and abandoned” Roma societies in remote villages cut off from industrial centres even in their vicinity. During the long decades of socialism, the labour demand of an extensive economy and compulsory primary education provided for the possibility of a relative social mobility and integration of the Roma. Nevertheless, mass unemployment in the wake of the regime change shook the foundations of this fragile social integration. High employment, which had evolved during the preceding decades, and resultant secure livelihood were replaced with uncertain and low employment based on odd jobs.<sup>52</sup> Under these conditions, poverty broke out and

forged specific norms, lifestyles, and values. The more deprivation is spatially concentrated, the more intense its cultural and generational effects can become.<sup>53</sup>

A regional development project, supported by the United Nations Development Program (UNDP) and the Hungarian Government, running from 2004 to 2009 showed how collaborative policy making could contribute to regional development. Cserehát benefitted from parallel micro-development projects and multi-level collaboration mostly among the local and regional stakeholders. The programme had four components, that is, to enhance social and community participation, building vertical and regional partnerships, developing human and financial resources, creating equal opportunities, and finally implementation of integrated development programmes.<sup>54</sup> The programme supported micro-development efforts in the region in amounts up to 2 million Hungarian Forints while the grant receivers should provide 10 per cent of this sum either from their own finances or through voluntary work or services. Civil society organisations, local businesses, local governments, minority self-governments and alike came together in this region to prepare grant applications with the help of the project mentors towards micro-development.

The UNDP and Hungarian government, in total, invested 2.8 million USD in support of micro-project development through collaborative networks in the region. 103 small-projects awarded through the Cserehát development programme. Out of 103 projects, 99 of them finished with success. 43 prepared further grant applications for macro-projects distributed through the Regional Operative Programme of the Hungarian government and so far 12 of them have successfully received funding.<sup>55</sup> Until the 2008 economic crisis, the impact of entrepreneurial development in the region was remarkable. There was an increase from 2006 to 2007 in the registered

number of joint businesses (from 35,852 to 37,157)<sup>56</sup> and the increase in the rate of economically active population (from 49.8% to 51.0%)<sup>57</sup> in the North Eastern Hungary. While we should underline the difficulty to determine the exact cause of this increase in entrepreneurial activity in the region where Cserehát is located, we should also mention that this was registered as the highest increase in Hungary while in four regions there was a decrease and in one the rate of economically active population was stagnant. Hence, there are grounds to argue that both hypotheses stated above have an explanatory value and, hence, they are mutually reinforcing.

Table 4: Hypotheses 1 and 2 Discussion

|   |  |
|---|--|
| <i>Hypothesis 1</i>                             | <i>Hypothesis 2</i>                                  |
| <i>Variation in IV1:</i>                        | <i>Variation in IV2:</i>                             |
| Increased collaboration due to the UNDP project | Increased centralisation due to the formation of NFÜ |
| <i>Variation in DV:</i>                         | <i>Variation in DV:</i>                              |
| Increased regional development                  | Increased regional development                       |
| <i>Hypothesis 1</i> ✓                           | <i>Hypothesis 2</i> ✓                                |

#### IV. Conclusion:

In summary, we can argue the co-operation between public and private stakeholders affect regional development positively, but it also looks as if regional development increases if there are large-scale projects executed top-down. In the Scottish case, stakeholder approach and issue prioritisation seem to have an effect on long-term economic development in the Scottish regions. In the Hungarian case, both centralised decision-making and local development initiatives generate mutually reinforcing conditions. Hence, both of the hypotheses in relation to Hungary have plausible projections towards economic development, but also have flaws. Hence,



there are grounds to inquire possible scope conditions to refine both hypotheses. Diversity of interests and related social integration potential of projects can clarify the collaboration hypotheses. Whereas, the number of actors and the prevalence of public veto players can specify how centralised policy-making affect regional development policies. The paper, in part, shows that the current set-up institutions of development at macro-level are not capable of solving the development problems at the micro-level. Yet, it also raises attention to the emerging impact of project class in using development funds and enfeebled social integration through collaboration.<sup>58</sup> Comparable evidence from the developing countries shows that the process of fight against poverty creates its own elite – separate from the political elite, who is frequently regarded as corrupt.<sup>59</sup> This project class refers to primary actors who can renew local communities. Yet, MLG has a certain impact on communities affected by economic remoteness and its social effects. Ladányi and Szélenyi noted that the culture of poverty fostered by extreme egalitarianism, absence of trust and short sightedness could possibly be solved by extended collaboration. Meanwhile, providing access to regional stakeholders in central decision-making can extend the awareness about development projects and hence their impact. At its next stage, this study will concentrate on the post-2009 economic crisis conditions in order to verify the saliency of its hypotheses.

Surprisingly, in terms of longitudinal poverty and economic decline, Hungary and Scotland have common problems despite diverging historical legacies, local governance and regionalisation, and period of EU membership. We explain their convergence in relative underdevelopment despite their divergence in historical

legacies and public administration systems looking into stakeholders to and issue prioritisation in development.

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<sup>1</sup> Commission of the European Communities (2005) Partnership in the 2000-06 Programming Period. Analysis of the Implementation of the Partnership Principle. Brussels CEC Available at

[http://ec.europa.eu/regional\\_policy/sources/docoffic/official/reports/pdf/partnership\\_report2005.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/pdf/partnership_report2005.pdf)

<sup>2</sup> (CEC, 2005b, 9).

<sup>3</sup> Bachtler, J., Josserand, F. and Michie, R. (2002) EU Enlargement and the Reform of the Structural Funds: The Implications for Scotland Stirling Scotecon. Available at:

<http://scotecon.net/publications/Bachtler%20Final%20Full1.pdf>

<sup>4</sup> Scottish Executive (2005) Mid term Evaluation Update of Western Scotland Objective 2 Programme. Edinburgh Scottish Executive, 33.

<sup>5</sup> Scottish Executive (2006) Future European Structural Funds Programmes in Lowlands & Uplands Scotland 2007-13 Edinburgh Scottish Executive Available at

<http://www.scotland.gov.uk/Resource/Doc/152384/0040996.pdf>

<sup>6</sup> <http://www.esep.co.uk/01-esf-programmes-intro.html>

<sup>7</sup> Heil, P. (2009) 'A szövetség kincsesládája. Az Európai Unió fejlesztési alapjai Magyarországon', *Európai Tükör*, 3.

<sup>8</sup> L. Bruszt, "Governing sub-national/regional institutional change: Evolution of regional (sub-national) development regimes – challenges for institution building in the CEE countries and sub-national institutional experimentation," *NEWGOV, New Modes of Governance*, (2005), pp. 1-20.

<sup>9</sup> Ash Amin and Nigel Thrift, "Living in the Global," Ash Amin and Nigel Thrift, eds., *Globalization, Institutions, and Regional Development in Europe*, (Oxford: Oxford University Press, 1994).

<sup>10</sup> Interviews with civic groups in Nyírség right after the pollution in River Tisza in 2001. In an interview, the project mentor Melinda Kassai articulated similar insights from Cserehát.

<sup>11</sup> Martin Myant and Simon Smith, "Regional Development and Post-Communist Politics in a Czech Region," *Europe-Asia Studies* 58, (March 2006), p.168.

<sup>12</sup> *Ibid.* p.167.

<sup>13</sup> Korkut and Buzogány *forthcoming*

<sup>14</sup> Kiss, pp: 176-177.

<sup>15</sup> See the Országos Területfejlesztési Hivatal website for job definition of National Regional Development Council at [http://www.oth.gov.hu/en/hivatal\\_ott.php](http://www.oth.gov.hu/en/hivatal_ott.php)

<sup>16</sup> János Péter Kiss, "Dynamism in Backwardness? Szabolcs-Szatmár-Bereg County and Nyíregyháza in the 1990s," in Maarten Keune and József Nemes Nagy, eds., *Local development, institutions and conflicts in post-socialist Hungary*, (International Labour Office, 2001), pp:170-201, p.183.

<sup>17</sup> Interview with the project mentor Melinda Kassai, 12.12.2006, Budapest.

<sup>18</sup> Melanie Tatur, "Hajdú-Bihar Case Study: Corporatist Partnership or Elitist Clientelism?" in Melanie Tatur, ed., *The Making of Regions in Post-Socialist Europe – the Impact of Culture, Economic Structure and Institutions. Case Studies from Poland, Hungary, Romania and Ukraine* 1, (Wiesbaden: VS Verlag: 2004), pp: 356-395.

<sup>19</sup> László Bruszt. 'Multi-level Governance—the Eastern Versions: Emerging Patterns of Regional Developmental Governance in the New Member States', *Regional & Federal Studies*, 18, 5 (2008): 622.

<sup>20</sup> *Ibid.* 629

<sup>21</sup> Éva Perger. 'Az EU „regionális” támogatások hatása a területi decentralizáció folyamataira', *Comitatus*, January-February (2010).

<sup>22</sup> Éva Perger (2009) 'Unió regionális támogatások felhasználása Magyarországon'. *Polgári Szemle*, 5, 5.

<sup>23</sup> *Ibid.*

- <sup>24</sup> (Horváth 2008, p. 199)
- <sup>25</sup> Perger, 2010
- <sup>26</sup> Perger 2009
- <sup>27</sup> Umut Korkut. Micro and Macro Development in Hungary under the Glance of EU Cohesion Funds, *East European Quarterly*, 42, 3, 2008: 285-315.
- <sup>28</sup> *Országos Fejlesztéspolitikai Konceptió II.Rész Célok és Eszközök a Sikeres Magyarországért*, 15.
- <sup>29</sup> Available at <[http://www.fvm.hu/doc/upload/200512/avf\\_strategia.pdf#search=%22nemzeti%20agrar-vidékfejlesztési%20terv%22](http://www.fvm.hu/doc/upload/200512/avf_strategia.pdf#search=%22nemzeti%20agrar-vidékfejlesztési%20terv%22)>
- <sup>30</sup> (New Hungary Development Plan 2007-2013, p.138)
- <sup>31</sup> Umut Korkut. More Reform, Less Action Dilemmas of Economic Europeanization for Hungary, *Problems of Post-communism*, 57, 1: 17-27.
- <sup>32</sup> (Author's interview at the National Development Office, Budapest, 16.08.2006)
- <sup>33</sup> (Korkut 2008)
- <sup>34</sup> (Kovách and Kucerova 2006)
- <sup>35</sup> (Horváth 2008)
- <sup>36</sup> cf. Perger 2010
- <sup>37</sup> (Bruszt 2008, p. 616-617)
- <sup>38</sup> (2004, p.457)
- <sup>39</sup> Loïc J.D. Wacquant, "Red Belt, Black Belt: Racial Division, Class Inequality and the State in the French Urban Periphery and the American Ghetto," in Enzo Mingione (ed.), *Urban Poverty and the Underclass*, (Oxford: Blackwell Publishers: 1996), 253-254.
- <sup>40</sup> *Magyar Nemzet Magazin*, 15.07.2006.
- <sup>41</sup> Putnam, Robert. *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press: 1993)
- <sup>42</sup> Putnam, p.47.
- <sup>43</sup> Adam *et. al*, p.49.
- <sup>44</sup> *Ibid.* 52.
- <sup>45</sup> J. Coleman, "Social Capital in the Creation of Human Capital," *American Journal of Sociology*, 94, Supp. (1998), pp: S95-S120.
- <sup>46</sup> The longitudinal fieldwork of Ladányi and Szelényi on the Roma community and their working habits in a Cseréhát village called Csenyété demonstrates the peculiar characteristics of the habitus of poverty. The culture of poverty portrays three characteristics in Csenyété: extreme egalitarianism, the absence of trust and authority, and short-sightedness. Ladányi and Szelényi present the Roma population as always afraid of the outsider "taking advantage of them", which is frequently repeated in interviews with the following phrase *az ő zsírukon akar meghízni és meggazdagodni, senki ne gazdagoljon az én zsiromon, munka nélkül pénz keressen*. Ladányi and Szelényi argue that the Roma want to see equality in every business deal and aid distribution. They have a constant suspicion that the others will be better off than them after any kind of business deal. That is how equality plays a very important role for the Gypsy communities and they avoid its destruction even at the cost of remaining unemployed. Hence, "either everyone has work or noone has any" as the following Hungarian phrase repeated often in Ladányi and Szelényi's interviews demonstrates: *vagy legyen mindenkinek munkája, vagy senkinek se legyen*. In this picture, extreme egalitarianism becomes destructive since such mentality does not build solidarity but envy. Hence, in communities affected by poverty, at the root of solidarity is the common experience of paucity.
- <sup>47</sup> Erna Sággy, "Élet Csenyétén Helybenjárók," *Figyelő*, 8-14.09.2006. Also see Ladányi and Szelényi, p. 86.
- <sup>48</sup> Warzywoda-Kruszyńska, p.235.
- <sup>49</sup> Ladányi and Szelényi, p.88
- <sup>50</sup> Ladányi and Szelényi, pp: 106-112.
- <sup>51</sup> János Péter Kiss, "Dynamism in Backwardness? Szabolcs-Szatmár-Bereg County and Nyíregyháza in the 1990s," in Maartern Keune and József Nemes Nagy, eds., *Local development, institutions and conflicts in post-socialist Hungary*, (International Labour Office, 2001), pp:170-201, (p. 179).
- <sup>52</sup> Zsolt Spéder, *A szegénység változó arcai. Tények és értelmezések*, (Budapest: Századvég Kiadó, 2002).
- <sup>53</sup> Wielisława Warzywoda-Kruszyńska, "The Poor of Large Cities: Is an Underclass Forming? The Example of Welfare Recipients," in Michał Buchowski, Eduard Conte, and Carole Nagengast, eds., *Poland beyond Communism: "Transition" in Critical Perspective*, (Switzerland: University Press Fribourg, 2001), pp: 225-238, (pp:225, 228-9).

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<sup>54</sup> Cserehát Regional Development Programme in Hungary, available at, <http://europeandcis.undp.org/home/cst/show/52C707FE-F203-1EE9-B782D3A80C38E0FF>

<sup>55</sup> Ibid.

<sup>56</sup> A regisztrált gazdasági szervezetek száma gazdálkodási forma szerint, december 31. (2000–), available at, [http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/xstadat\\_eves/tabl6\\_03\\_02\\_01i.html](http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/xstadat_eves/tabl6_03_02_01i.html)

<sup>57</sup> Aktivitási arány (2000–), available at, [http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/xstadat\\_eves/tabl6\\_02\\_01\\_05i.html](http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/xstadat_eves/tabl6_02_01_05i.html)

<sup>58</sup> Imre Kovách and Eva Kučerová, 'The Project Class in Central Europe: Czech and Hungarian Cases', *Sociologia Ruralis*, Vol. 46, January (2006), pp. ?.

<sup>59</sup> Elisa P. Reis and Mick Moore (eds.), *Elite Perceptions of Poverty and Inequality*, (London and New York: CROP: International Studies in Poverty Research, Zed Books: 2005), pp: 1-25.