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Changing of the spatial development means and institution in hungary after the change of regime

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**CHANGING OF THE SPATIAL DEVELOPMENT MEANS AND
INSTITUTION IN HUNGARY AFTER THE CHANGE OF REGIME**

REGIONAL DEVELOPMENT POLICY IN HUNGARY

Before 1990, regional development policy as a governmental function was of secondary importance. Although economic planning, control and management were based on sectoral principles, regional processes contributed towards an equilibrium in the sense that differences in social-economic development were decreasing among the various regions. This apparent contradiction is attributable to Hungary's economic structure. Before 1990, due to the lack of market and competition, the economic system basically gave support to and protected weaker regions at the expense of the strong ones. These tendencies hindered the dynamism of the economy while leading to the mitigation of regional imbalances.

During the transition phase following the change of the political system new requirements have emerged for regional development: establishment of a new institutional system, decentralisation of decision-making, co-ordination of resources. For the accession to the European Union it has been necessary to modernise the practice of regional development and implement the principles of European regional policy. The fundamental, preparatory steps have already been made in this long-term process. Act XXI. of 1996 which provides legitimacy to regional development is an element of prime importance in this process.

In the first half of the 1990s, the Government took *individual measures* to perform regional development tasks, which were primarily aimed at the advance and catching up of the Eastern Hungarian counties and at easing the problems of underdeveloped regions by curbing spontaneous processes in depressed areas, especially through creating jobs of tertiary character, i.e. in the service sector, within state investments.

The clearly unfavourable regional trends created the need for establishing a more pronounced regional policy. Its basis was laid down in *Act XXI of 1996 on Spatial Development and Planning*. The law specifies the tasks and identifies the instruments and institutions of spatial development and planning. With the adoption of the Act, Hungary was the first among the accession countries to create a legal framework in conformity with EU spatial development requirements.

By the mid-90s, as a result of the transformation of the market, a new spatial structure developed, which unlike in previous decades was characterised by greater disparities – in terms of economic structure and performance - in all regional relations (capital city-countryside, eastern-western parts of this country, settlements at the bottom and at the top of the urban hierarchy). Based on the above, the Parliamentary Resolution adopting the National Regional Development Concept specified the following strategic objectives:

- to mitigate regional disparities,
- to reduce the excessive concentration of Budapest,
- to promote the spatial diffusion of innovation,
- to support the development policy guaranteeing the sustainable use of resources,
- to promote international integration, to prepare for EU accession.

Similarly to Western examples, Hungary's objectives were also designed to reduce unfavourable processes and to strengthen the desired development trends. In the case of practically each and every strategic objective (except objective 5 containing primarily institutional and operational measures), the impacts and results of measures taken to accomplish them become manifest only as a result of a gradual and long term process. It also means that while measures aimed at achieving the objectives can be listed in a matter of fact way, their quantifiable results and impacts on regional and local development are not always visible yet, rather occasionally regional development is still dominated by trends contrary to the long-term goals (growing economic and income differences, increasing concentration of Budapest, new environmental crisis situations).

SPATIAL DEVELOPMENT MEANS IN HUNGARY

In the first half of the 1990s, spatial development activity in Hungary was of *transitory nature*. Partly because of the untested practice of spatial development management, institutions and mechanism, and partly because of the absence of a medium-level authority with appropriate powers, the issues that required intervention had to be handled by means of direct governmental instruments. The insufficiency of the available instruments, however, hindered the efficiency of individual interventions. The process of economic recession highlighted the need to create new spatial development instruments in order to manage growing regional disparities, the problems of depressed regions affected by serious social and economic crisis.

A review of spatial processes and measures indicates that in the 1990s spatial development policy established its new network of instruments and institutions, primarily with a view to mitigating spatial disparities and it focused, in particular, on underdeveloped and depressed regions. Although this policy could reduce the unfavourable effects of market-based spatial differences in the economy, it could prevent new excessive depressed (crisis-ridden) regions from surfacing, nevertheless it failed to put a halt to these trends.

Government programmes

Due to the economic recession in the 1990s and its spatial consequences, spatial development policy was confronted with serious problems. The situation of depressed regions and economically handicapped regions was further aggravated and *individual intervention* had to be used by the Government to alleviate it. Such government measures, which were often preceded by special government sessions held in provincial towns, affected seven counties, nevertheless the county-level spatial development ideas, which were elevated to the level of government programmes, reflected the transitory nature of spatial development management. The first regional level governmental intervention package was elaborated for the Great Plain, laying emphasis on resolving ecological-environmental problems, in particular. Government programmes designed to assist micro-regions with special conditions – the towns of Ózd, Pécs-Komló, Záhony

and its surrounding area – were necessary to address special problems unique to a given region by applying the new instruments of spatial development and crisis management.

Following the adoption of the spatial development act, the emphasis was laid on the need to prepare *complex programmes for managing regional, county-level problems*, and on financing them by the *integrated use of central support* and by providing the local, decentralised decision-makers to have a say in allocating some of the financial resources.

Regulatory Legal Documents

At government level, the first strategic task was to create an appropriate legal framework. Several government resolutions – directly or indirectly affecting spatial development - were passed in the recent decade, of which the most significant is *Act XXI of 1996 on Spatial Development and Planning*. Based on the spatial development principles applied in the European Union, the Hungarian Act identified the scope of spatial development policy, its instruments and institutions, the tasks of the different actors of spatial development, thus creating the necessary conditions for spatial development activity under the criteria of the market economy.

Before the enactment of the law, the legal regulation primarily governed the functioning of a support system designed to alleviate spatial disparities and backwardness and to define the scope of settlements and regions affected. The decisions taken *after the adoption of the Act* were aimed at promoting the implementation of the objectives set out in it. Decrees on the spatial development tasks of ministers and organisations with national competence, on the substantive criteria for spatial development concepts, programmes and regional plans and on their co-ordination and acceptance were issued, and the parliamentary resolution on the principles of decentralisation and on the criteria for the classification of beneficiary areas was also adopted at that time. Although the *National Regional Development Concept*, adopted by Parliament in 1998, cannot be deemed as a legal document, its strategic significance in shaping and harmonising national and regional development policies needs to be underlined.

Financial Instruments

Ten systems of support were designed to serve – directly or indirectly – the implementation of spatial development objectives. Their magnitude is demonstrated by the fact that in the period 1996-1998, the total allocation for spatial development was over *HUF 543 billion*. Direct financial instruments are the Targeted Provisions for Spatial Development (TFC in Hungarian) and the Support for Promoting Spatial Balance (TEKI in Hungarian).

	1996	1997	1998	1996-98 total
Targeted Provisions for Spatial Development (TFC in Hungarian)	7.5	9.1	6.1	22.7
Support for Promoting Spatial Balance (TEKI in Hungarian)	8.5	10.4	8.4	27.3
Targeted and Earmarked Support (CCT in Hungarian)	58.8	59.8	76.3	194.9
Targeted Provisions for Economic Development (GFC in Hungarian)	4.0	6.0	3.3	13.3
Targeted Provisions for Tourism (TURC in Hungarian)	1.5	1.4	1.4	4.3
Labour Market Fund (MPA in Hungarian)	19.6	27.4	27.3	74.3
Agrarian Support (AGR in Hungarian)	25.3	29.7	50.0	105.0
Environmental Targeted Provisions (KAC in Hungarian)	6.2	16.8	20.5	43.5
Targeted Provisions for Road Maintenance and Construction (ÚTC in Hungarian)	9.6	21.0	20.0	50.6
Water Supply Targeted Provisions (VÍZC in Hungarian)	2.1	2.6	3.7	8.4
Total	143.1	184.2	217.0	544.3
In % of GDP 1998	1.60	1.83	2.15	5.43

Billion HUF, at 1998 prices

Since 1994, the extent of direct spatial development support at current price has more than tripled, it rose from HUF 6.5 billion in 1994 to almost HUF 20 billion in 1998.

Of the financial instruments directly serving spatial development, the proportion of decentralised resources has shown a significant increase in recent years.

The extent of decentralised support 1998-2001

Decentralised support	1998	1999	2000	2001
Total decentralised allowance for the County Development Councils	20,007.2	23,322.0	24,448.3	23,608.0
- Targeted Provisions for Spatial Development (TFC)	7,007.2	7,322.0	7,008.3	6,735.0
- Support for Promoting Spatial Balance (TEKI)	9,000.0	10,000.0	10,900.0	10,573.0
- Target-Oriented Decentralised Support (CÉDE)	4,000.0	6,000.0	6,540.0	6,300.0
Total decentralised allowance for the Regional Development Councils (TFC)	542.6	1,100.0	940	5,519.0
<i>Total decentralised resources</i>	<i>20,549.0</i>	<i>24,422.0</i>	<i>25,388.3</i>	<i>29,127.0</i>

The driving force behind spatial development in Hungary is the community of more than one million economic enterprises. Compared to this force, the state as a direct financial player in the economy was not capable of counterbalancing regional differences. One of the reasons of this failure was the inefficiency of resource co-ordination in the course of allocating central funds.

Pre-accession Funds

The regional development Phare programmes, which are probably the most important practical instruments of Hungary's preparation for EU accession, have played and continue to play a paramount role in the further refinement of Hungarian regional policy. On the one part, the Phare programmes help the public administration, regional and local actors of spatial development prepare for the reception of the Structural Funds of European Union, and on the other, they are instrumental in setting up the institutions of spatial development, in adapting the European spatial development guidelines and in shaping the approach of the actors of spatial development. The programmes acted as a

catalyst in encouraging inter-municipal and regional co-operation, in promoting cross-border co-operation, in establishing regional institutions, and they contributed to setting up a new network of institutions, including county and regional development agencies, and to testing the viability of these institutions. It deserves to be noted that in the period 1992-1999, Phare funding of approximately HUF 30 million was available to support developments in the beneficiary regions. In addition to accomplishments, some difficulties were also encountered, arising from the lack of knowledge and experience in applying the EU procedures and from the need to follow bureaucratic red tape in programme implementation. The Phare procedural rules, which were excessively inflexible, often impeded the launch and proper scheduling of the projects; the consequent delay often led to the devaluation and depletion of the resources.

Despite the difficulties in the early phase, the EU's spatial development support programmes will continue to play a pioneering role in the adaptation of the European Union's structural policy guidelines in Hungarian spatial development and planning. The programmes, launched in 1998, are principally designed to serve the preparations for EU accession. The Phare continues to be the most important instrument of financial support until the time of accession, however, from 2000 it is complemented with special infrastructure and rural development funds within the scope of ISPA and SAPARD.

The main goal of ISPA is to prepare the applicant countries for receiving the support of the *Cohesion Fund*, to eliminate the deficiencies in *infrastructure and environmental protection*, to resolve specific problems hindering accession and to improve provision indexes. The programme is focused on two areas: transport development and environmental projects. The minimum value of each project is to be Euro 5 million. The extent of Community support must not exceed 85% of the project costs.

The SAPARD, a supplementary financial instrument for accession, launched on 1 January 2000, is a multi-annual programme designed to support the agrarian and rural development of the ten Central and Eastern European accession countries. The support will be available until the time of accession. Based on the negotiations, Euro 50 million - i.e. HUF 12-13 billion - is expected to be allocated to Hungary every year. The main priorities of the programme include: setting up farming enterprises and producers' groups; improving farm management services, the level of processing and marketing;

alternative sources of income, animal and plant health control; village and rural development (infrastructure, historic monuments), soil amelioration, plot division, establishing land registry, vocational training, water management, forestry, agrarian environmental protection.

Spatial Planning

Spatial planning is a crucial component of the instruments which facilitate the implementation of spatial development policy, because the efficient use of financial instruments can be guaranteed by properly elaborated regional plans. The spatial development act, adopted in 1996, provided for the counties to draw up regional concepts and programmes, whereas the same stipulation for regions was made only later in the 1999 amendment of the Constitution. The development of a new, hierarchical system of regional planning has greatly been furthered by Government Decree 184/1996 (December 11) on the co-ordination and adoption of regional development concepts, programmes and plans and by Resolution 18/1998 (July 25) on the substantive criteria for regional development concepts, programmes and regional plans and on the rules of registering plans. As a result of this process, by now each and every county and region has an approved regional development concept and programme.

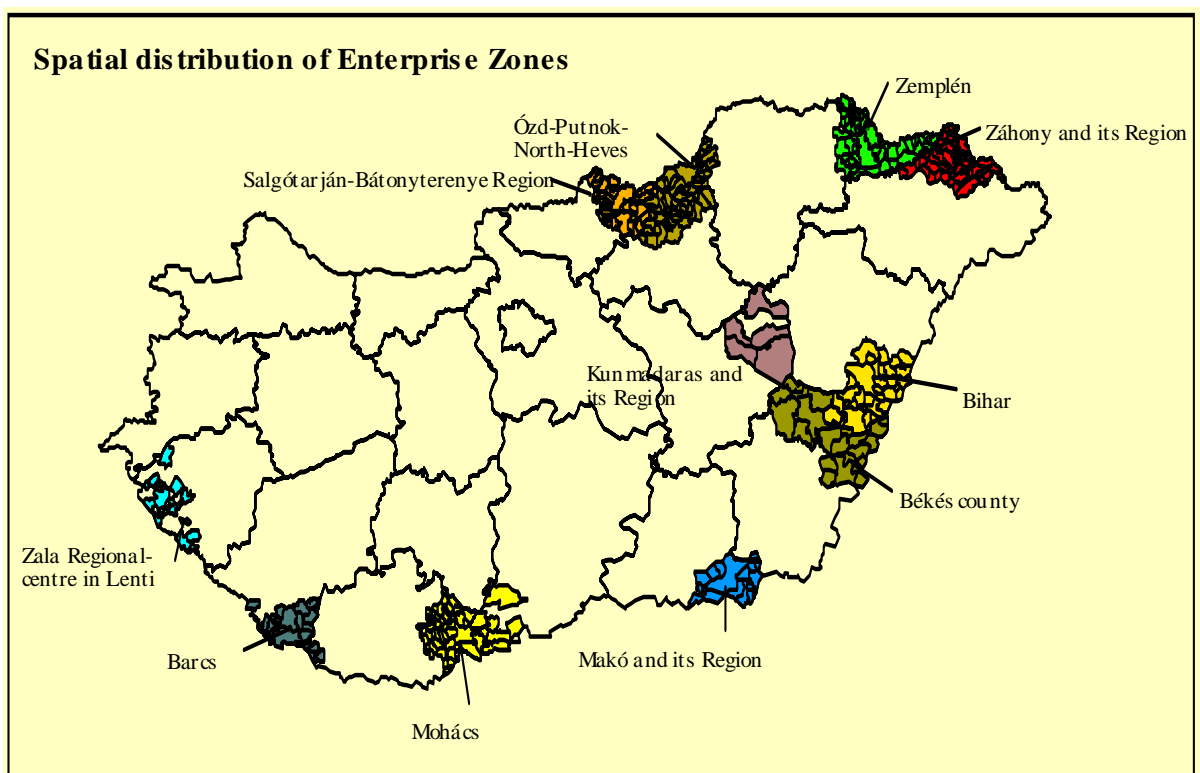
Spatial Information System

The Spatial Information System (SIS – TEIR in Hungarian) provides great assistance to regional planning and to preparing and taking regional development and planning decisions. It was set up in accordance with Government Decree 112/1997 (June 27) on the information system related to spatial development and planning and on mandatory data provision. The primary task of the information system is to collect, process, store and transfer spatially relevant data. The system, which contains 15,000 data per settlement, offers a comprehensive picture of the following areas: the society, economy, technical infrastructure and the state of the natural environment, unemployment and income conditions, the distribution of central support funds. The data are shown broken down to spatial units. In addition to retrieving data, the database helps prepare complex analyses and make comparison with the territorial data of the European Union. Within the two-tier SIS, the operation of the national system is the duty of VÁTI, while that of

the county level is the responsibility of the county chief notary public. The SIS database is continuously updated and contains an increasing number of services which are also accessible to the public. Registered users with full access to the system include especially ministries, county administrations, regional chief engineers, officers of county and regional development councils. The range of users is expected to be extended with the partnerships of municipalities and with local governments in the near future.

Enterprise Zones

Enterprise zones represent a special instrument of spatial development, which is used in the EU Member States only under highly justifiable conditions. Enterprise zones are usually a last resort when all other instruments have failed to remedy the problems of a region. The establishment of enterprise zones means abandoning the principle of competition under equal terms and granting economic advantages to a given region for a specific period of time. During this period the Government treats the region with special privileges granted under the title enterprise zone. According to Hungarian regulations, enterprises ready to invest in enterprise zones receive tax concessions for a period of five years as of the start of operation. The same tax concessions also apply to development projects of enterprises already operating there.



The National Regional Development Concept specifies 11 enterprise zones in Hungary. The designation of each and every enterprise zone was completed by early 1999, following very thorough preparations. Although only a short time has passed since the designation of enterprise zones, almost 16,000 new enterprises have been set up in the zones. The number of employees in the enterprise zones amounted to 233,000 in 2000. Consequently, the status of enterprise zone has triggered favourable trends in the designated regions. In order to accelerate the positive trends, intensive marketing activity and the further extension of the concessions will be necessary at local level, in particular. The consolidation of the agencies operating enterprise zones and the establishment of a monitoring system capable of assessing business activities in the enterprise zones are fundamental preconditions of future success.

INSTITUTION OF REGIONAL DEVELOPMENT IN HUNGARY

Compared to the former spatial policy, the spatial development act represented a major step forward by setting up the institutional network of regional development. The fundamental prerequisites of EU accession are the consolidation of the medium-level institutions of spatial development, the setting up of statistical (planning) regions, the elaboration of programmes and the preparation for their implementation by the regional and county development councils, the smooth operation of central co-ordination, the clear identification of competencies relating to receiving EU funds.

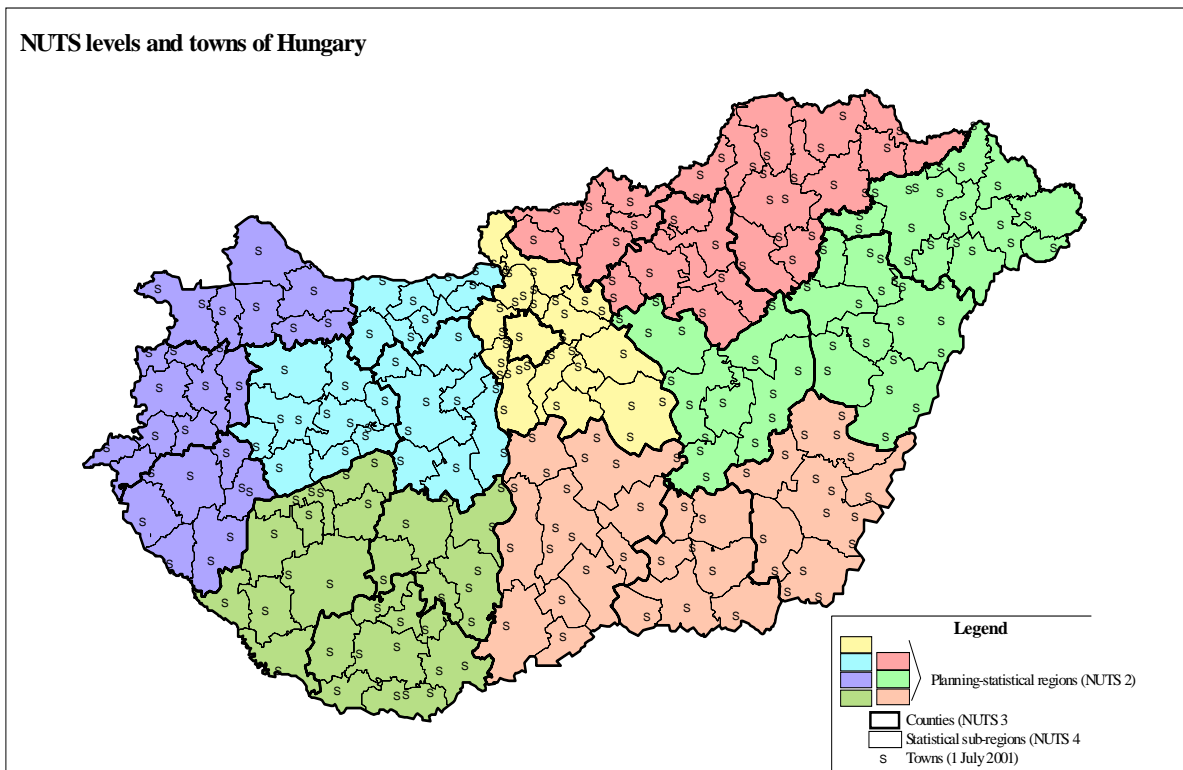
Following the coming into force of the spatial development act, a *four-level* network of regional development institutions was created.

At national level, in addition to governmental and ministerial tasks related to spatial development, the activity of the *National Regional Development Council* (OTT In Hungarian) is equally important, in which the ministries concerned as well as territorial (county-level, regional) and professional representations have a part to play. The main duties of the National Regional Development Council, which operates as the Government's advisory and co-ordinating body, were in the past to harmonise the

National Regional Development Concept, to express opinion on draft bills tabled to Government and to create a consensus in the substance of decrees.

At regional level, seven statistical regions have been set up pursuant to the National Regional Development Concept. The amendment of the spatial development act contained mandatory provisions for the establishment of *Regional Development Councils* built on the seven statistical regions. The primary task of the Council is to promote the economic and infrastructure development of the region, and parallel with it, to prepare and co-ordinate the execution of the region's development concept and programme. The foundation of regional development councils and the shaping of their operational framework (the representatives of counties may also be members of the regional development council) help the counties, which make up the region, to jointly identify development priorities, thus contributing to attuning the interests of the region and the counties.

With a view to addressing tasks that extend beyond the borders of counties and regions, the Act makes it possible for the regional development councils to co-operation voluntarily within the institutional framework of the *Regional Development Councils of Special Regions*. The Balaton Development Council was established as a regional development council of a special region by the Act to co-ordinate spatial development tasks affecting to the Balaton Recreational Area.



The definition of county level causes the least ambiguity in the Act, it is also supported by the experience of functioning. The role of the County Development Councils is enhanced by their discretionary power to allocate most of central financial instruments - directly promoting spatial development – by prioritising the support of job creation and infrastructure constructions that promote economic growth.

Of the possible intervention levels of spatial development, the micro-regional level has become - through the co-operation of local governments - the decisive element of regional policy, organised from bottom up. At micro-regional level, the significance of the Act is reflected by its ability to directly encourage local governments – which were fairly independent in the past – to enter into close co-operation by offering the partnerships of municipalities to participate in the decisions on the allocation of county-level funds.

FURTHER REFINEMENT OF MEANS AND INSTITUTIONS OF REGIONAL DEVELOPMENT

The direct regional development instruments (TFC, TEKI) represent a very small proportion within **the central support funds designed to promote spatial development**. These development resources are by themselves still not sufficient to accomplish regional balance. The speeding up of regional balance can best be furthered by the establishment of the integrated financing of regional programmes. To that end, the following needs to be done:

- To increase financial resources which directly serve spatial development objective;
- To guarantee – by taking account of territorial preferences - the co-ordinated and uniform use of indirect central resources, especially through legal regulation;
- To make increased use of the spatial decentralisation of development resources.

It is important to make **spatial planning** compatible with EU standards in the interest of receiving spatial development funding. To this effect, it is indispensable to clearly identify the required contents of county and regional development concepts and programmes.

The assessment of spatial processes relies on the Spatial Information System (SIS). The following will be necessary for the SIS to perform its roles:

- In addition to continuously upgrading the database of SIS, access to the system at county and regional levels is to be extended;
- To regulate sectoral data and information provision;
- To create the legal framework concerning the operation of the system.

It is of utmost importance to provide unambiguous regulation for the division of labour among the different levels of the **spatial development institutions**, with special regard to the establishment of the procedural rules and decision-making powers in the utilisation of decentralised budgetary and international resources.

- The co-ordination tasks arising from the inter-sectoral character of spatial development make it desirable to enhance the prestige and influence of the National Regional Development Council in the years to come.
- The fundamental prerequisites to Hungary's accession to the European Union include the consolidation of a medium-level network of regional development institutions, the elaboration of and preparations for the implementation of programmes by the regional and county development councils, as well as the smooth operation of central co-ordination and the determination of competencies related to the receiving of EU funds.
- The county level is materially affected by the consolidation of regions, and it raises the issue of the future role of county development councils. There is a need for both the second and third levels – i.e. region and county – in the NUTS system. The two do not exclude each other, and a rational and professional division of labour can and must be created between the two spatial levels, by recognising the primary role of the region in respect of EU accession, drawing up development programmes and receiving development resources. The management of micro-regional developments and the promotion of the local development activities of municipalities are tasks to be performed at county level.
- The partnerships of municipalities need to be provided with further professional and financial support, which would add greatly to the efficiency and success of their efforts aimed at planning, securing financial resources and programme management.