

LOCAL GOVERNMENT DEVELOPMENTS CO-FUNDED BY THE EUROPEAN UNION IN THE SOUTH-TRANSDANUBIAN REGION

Szilárd HEGEDŰS¹, Zsuzsanna SZÉLES²

¹ Szent István University, Management and Business Administration PhD School, Hungary

² Szent István University, Faculty of Economic and Social Sciences, Hungary
hegedus.szilard@gtk.szie.hu

ABSTRACT

Since Hungary's accession to the European Union, the country has gotten significant encouragement from the Community Cohesive Base regarding its economic situation. The aim of our research is to introduce and evaluate the developments of The National Development Plan and the New Hungary Development Plan in the South-Transdanubian Region. The South-Transdanubian Region placed fourth on the list of state of development in 2008, furthermore, on the basis of estimated spending power parity, the GDP index was not even fifty percent of the average Union value in 2005. According to numbers from 2004, 18 out of 24 areas were underprivileged. These are the areas with significant opportunities for development. Within the frame of the research we analysed the submitted and supported applications, the number of contracted applications, the engaged amount, the required they requested and the amount they were given by the local government, the initial payments and the payment support amount. In the course of the project we compared the data of the Transdanubian Region with that of Hungary generally. We analysed the intensity of the supporting rate and that apportionment in the Operational Program. The data source for the Reporting and Query Framework was the National Development Agency JELEK. We evaluated the application funds absorption capacity of the Southern Transdanubia Municipalities, the application use efficiency in the target areas. The improvements and their key characteristics, and compared their data with that of regions at similar levels of development.

Keywords: municipalities, development, competition, fund absorption

INTRODUCTION

By the integration into the European Union, the Hungarian municipality sector has become the beneficiary of the EU Regional Policy. It means that since 2004 they could receive more financial support from the funds of the National Development Plan and since 2007 from the New Hungary Development Plan than earlier from the purely Hungarian development sources. The project proposals co-financed by the European Union can be the tools of establishing regional competitiveness, the important factors of which are the public services offered by the local governments. During the last seven years, the local governments could have adapted to the project proposal system and prepared for involving subsidies of the European Union. The rational utilization of subsidies considering also the local needs provides a unique opportunity for the local governments to improve the infrastructure, local economy and the well-being of citizens. The objective of the paper is to evaluate the project-

writing activities and the awarded grants with special regard to the success of municipalities in the Southern Transdanubian region compared to the data of other two Transdanubian regions and the averages of municipalities in terms of the regions. Our further aim was to draft the most important experiences concerning the development projects won by the Hungarian municipalities.

MATERIAL AND METHODS

The data for the research were downloaded in March 2011 from the Report and Query System Tool that was operated by the National Development Agency. The source of the data was the Unified Monitoring and Information System (*EMIR*). The downloaded data are connected with those proposals and top projects only in case of which the site of investment is also registered. The data about the supported and contracted projects do not include those projects that were withdrawn or cancelled after the positive decision or concluded contract.

The basic statistical data are from the *MATÉRIA* ® Hungarian Public Administration geographical information system database which includes the integrated data selected from the T-STAR database of the Central Statistical Office, data of the national census, election database of the Ministry of the Interior, as well as the database of the National Regional Development and Regional Planning Information System.

The research used the methods of data analysis and comparative analysis to examine the success of project proposals of municipalities in the Transdanubian regions and to compare the data with the national regional average. On the basis of this the examined regions were ranked.

REVIEW

The National Development Plan is a strategic document, the construction of which was required for the utilization of European Union development sources. It was the precondition of applying for development grants from the Structural and Cohesion Fund. The strategic policy should have been drafted by those countries in which the GDP per head was less than 75% of the average of the EU. During the accession talks the European Union undertook to provide 5.1 billion EUR to Hungary from 2004 to 2006, out of which 2.8 billion EUR is structural and cohesion support (*Órsi, 2007*). The National Development Plan has been implemented in the frames of five operative programs, namely the Agricultural and Rural Development Operative Program (ARDOP), Regional Development Operative Program (ROP), Human Resources Development Operative Program (HRDOP), Environment Protection and Infrastructure Operative Program (EPIOP) and Economic Competitiveness Operative Program (ECOP). As regards the resource allocation, the first four operative programs preferred the less developed four regions, including the Southern Transdanubian region, while the latter ones primarily targeted the more developed regions (*Kullman, 2009*).

The objective of the Development Plan is to reduce the disparity in incomes compared to the EU average, to improve the life quality and to enhance the

balanced development of regions (Lóránd, 2009; NFH, 2004). The ARDOP operative program aimed the modernization of agricultural production, the improvement of human resources and processing facilities, the remedial development of the countryside and increasing the attractiveness of rural areas. The local governments – especially of the small settlements – applied mostly for the announcements of the LEADER programs in order to obtain rural development subsidies. The ECOP program has focused on the development of science-based economy and raising the innovation level. The municipalities in the examined region applied for extending the electronic administration, organizational development and construction of broadband networks.

The aim of HRDOP was to improve employment and labour competitiveness. The local governments of the examined regions applied for the priorities of the operative program in order to improve the level of human public services – health and education. The EPIOP funds were used for developing waste management, implementing green energy projects and expanding drinking water network. The priorities of RDOP included the development of backwarded settlements and districts, increasing the touristic potential, development of infrastructure for local public services and creating jobs.

Hungary has received 22.4 billion EUR from 2007 till 2013. It means 6875 billion HUF at price level of 2004, with 15% national co-financing (Huba-Varga and Dobay, 2007; Kleinheincz, 2006). In the frames of the New Hungary Development Plan 6 out of the 7 statistical-planning regions of the country belonged to the first convergency target field of regional policy. All the three examined regions could utilize the subsidy according to the objectives of this field. The most important comprehensive aim of the plan is the expansion of employment and competitiveness, in accordance with the Lisbon Strategy (Kengyel, 2009).

The Plan invited project proposals in six areas (economy, transport development, infrastructure, regional development, environmental as well as energetical development, and state reform), 5 sectoral and 7 regional operative programs (New Hungary Development Plan, 2007; Kleinheincz, 2006).

The Social Infrastructure Operative Program (SIOP) focuses on the development of education and health infrastructure. The Social Renewal Operative Program (SoROP) gives priority to the enhancement of employability, development of education and human resources, research and innovation. The Transport Operative Program (TOP) aims to extend the accessibility of regional centres, development of rail and intermodal ways of transport. The Economic Development Operative Program (EDOP) intends to fund the complex development of innovation and enterprises. The Environment and Energy Operative Program (EEOP) wants to set up green settlements, high-level waste management and protection of waters. The State Reform Operative Program (StROP) and Electronic Administration Operative Program supports the development of electronic administration infrastructure and reorganization within municipalities and state authorities.

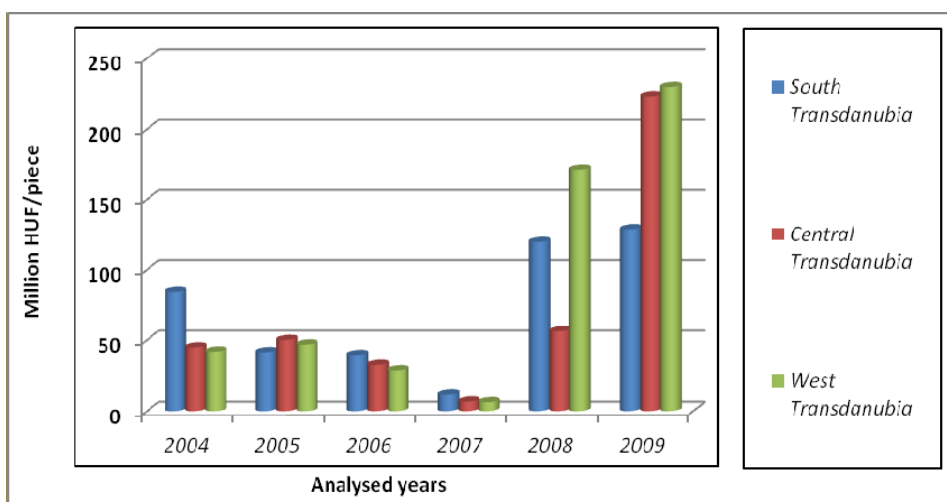
The funding constructions of the seven regional operative programs (STOP, CTOP and WTOP in the examined regions) set up development objectives

adjusted to the special situation of regions, including local and regional development, touristic development, transport development and development of public services (Kengyel, 2009). The New Hungary Development Plan was to work until 2013 but it was earlier replaced by the New Szécheny Plan according to a government resolution.

The regions in Hungary are different not only regarding their level of development but due to this, the level of subsidization is also different. The data of awarded grants in the three examined regions are compared on *Figure 1* for the period following the accession to the EU.

Figure 1

Amount of grant per one EU project proposal in the three examined regions between 2004 and 2009 (million HUF/piece)



Source: TEIR, 2011

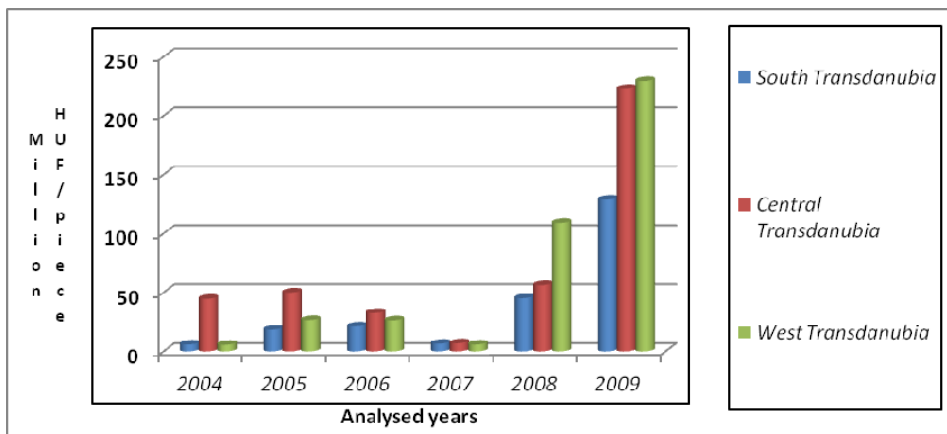
The degree of national subsidies is very significant in the examined three regions between 2004 and 2006, but following this, they depend on EU funds. The size of EU sources per one awarded project is shown by the *Figure 2* from which it is obvious that the tendency was decreasing until 2007, then there are extremely high values in 2008 and 2009. There are also great differences between the regions.

Figure 3 shows the total grant per one project both from national and EU sources. It is also clear that the amount of grants were very high in 2008 and 2009. While, however, examining the grant per one EU project in the Southern Transdanubian region it was 119.6 million HUF in 2008, in case of all the projects it was 45.2 million HUF in the same region.

The difference can be due to the fact that the amount per an average Hungarian project was only 2.2 million HUF in the same year.

Figure 2

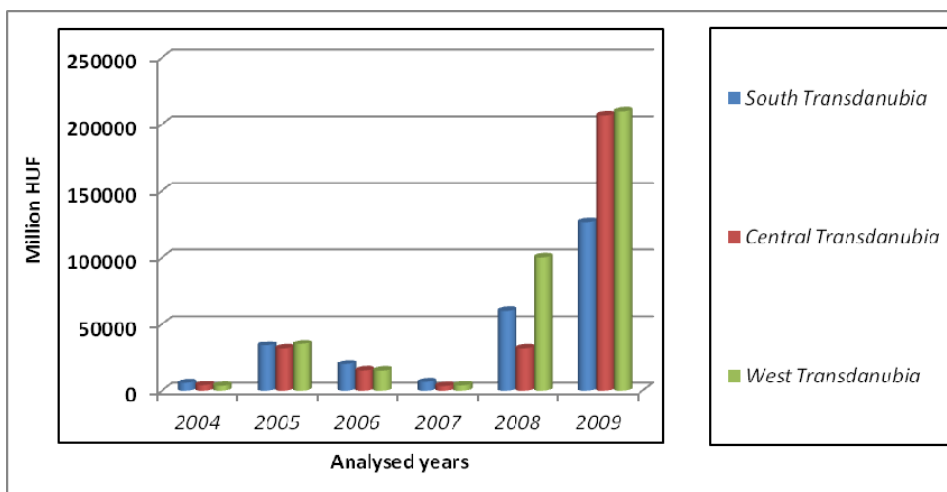
Amount of grant per one project proposal (national-EU) per year in the three examined regions between 2004 and 2009, (million HUF/piece)



Source: TEIR, 2011

Figure 3

Amount of EU grant per year in the three examined regions between 2004 and 2009 (million HUF)



Source: TEIR, 2011

As regards the amount of grants it can be observed that the value had a peak in 2009 in all the regions comparing to the previous period. Almost the same amount was paid for the support of the Central and the Western Transdanubian region,

while Southern Transdanubia was behind the other two regions by about 80 billion HUF. Examining the tendency from 2008 to 2009 it is obvious that the grants paid to Western and Southern Transdanubia doubled, while in case of Central Transdanubia quadrupled.

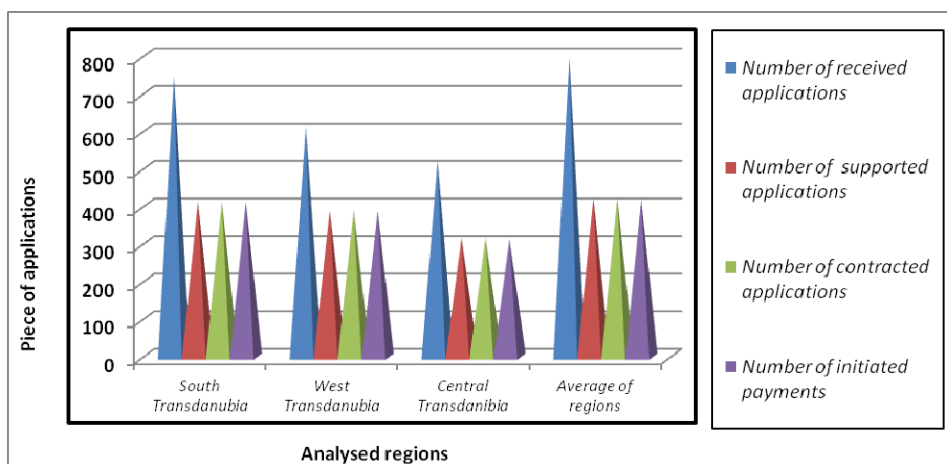
RESULTS

National Development Plan

Within the review of the National Development Plan we analysed first the activity of local governments in application (*Figure 4*). The measuring number was the number of applications submitted by the municipalities of the examined regions.

Figure 4

Number of submitted, awarded, contracted and paid (payment at least started) projects in the examined regions (National Development Plan), as by March, 2011



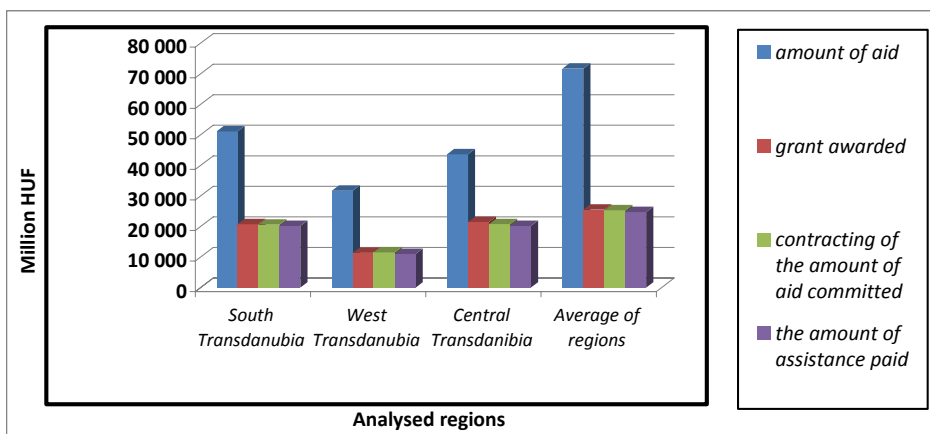
Source: *National Development Agency*, 2011

The data confirm that the Southern Transdanubian region is the most active regarding its municipalities, because the local governments of this region submitted the most project proposals and their successful projects were implemented completely because the number of contracted projects and projects where the transfer of the grants was started is the same. The results are worse in case of the other examined region, because some of the projects were not implemented.

The *Figure 5* introduces the grants requested, awarded and bound in subsidy contracts by the Transdanubian regions in the frames of the National Development Plan, as well as the actually transferred subsidy grants by the completion of the projects.

Figure 5

Grants requested by the local governments, awarded, contracted and paid in the frames of the National Development Plan in the examined regions, in March, 2011



Source: *National Development Agency*, 2011

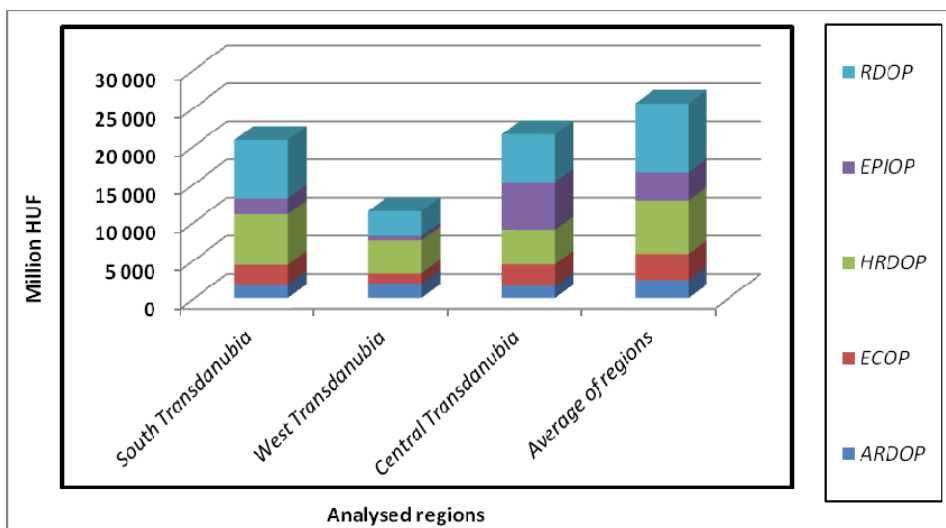
On the basis of these, the highest grants were required by the municipalities of the Southern Transdanubian region. These grants amounted to approximately 51.15 billion HUF, while the municipalities of the Central Transdanubian region applied for 43.3 billion HUF and the municipalities of the Western Transdanubian region applied for 31.68 billion HUF between 2004 and 2006. The result of none of the regions has reached the national average. As regards the awarded grants, the Central Transdanubian region received the highest grant, 21.5 billion HUF, and the local governments of the Southern Transdanubian region got the second highest grant, 20.75 billion HUF, among the examined regions. The funds bound in the contracts were also the highest in case of the local governments of the Southern Transdanubian region, it was higher by 11 million HUF than in the Central Transdanubian region. The reason for this was that the competent authority did not pay a significant amount, 1.2 billion HUF (6.03% of the awarded grant) from the total awarded grant.

Examining the success of applying for the funds, it is obvious that the local governments of the Central Transdanubian region could obtain the highest amount from the requested sources: almost half of the requested support, 49.27% was allocated for them. The Southern Transdanubian region was the second in this regard with 40.57% success rate. The success rate index was above the national average in all the examined regions. Out of the awarded grants, the actual payment was the highest, 97.5% for the municipalities of the Southern Transdanubian region. It is above the national average. It can be due to the lack of experiences at the local governments concerning the project system and fund-raising during the National Development Plan.

Figure 6 and Table 1 shows the distribution of awarded grants among the operative programs.

Figure 6

Distribution of municipality grants awarded in the frames of the national Development Plan among the examined regions, in March, 2011



Source: *National Development Agency*, 2011

Table 1

Distribution of municipality grants awarded in the frames of the National Development Plan in the Southern Transdanubian region, in March, 2011

Operational programme	Grant awarded, Million HUF	Own source, Million HUF	Total project cost, Million HUF	Intensity, %
ARDOP	1 814.40	510.38	2 324.79	80.38%
ECOP	2 533.52	755.16	3 288.68	77.44%
HRDOP	6 269.86	232.22	6 502.08	99.54%
EPIOP	2 433.79	367.41	2 801.20	84.78%
RDOP	7 697.66	803.03	8 005.69	93.27%
Total	20 749.23	2 668.21	22 922.44	88.49%

Source: *National Development Agency*, 2011

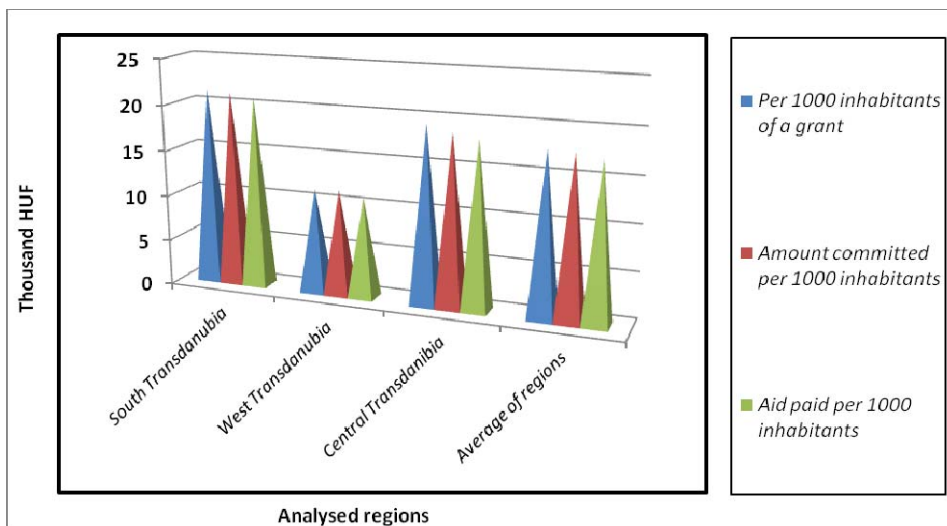
In case of the local governments of the Southern Transdanubian region – just like in case of the Central Transdanubian region – the highest grants were awarded for

the RDOP priorities. It amounted to 37.10% of the total awarded funds, which was the highest compared to the other two regions both in terms of ratio and amount. The share of funds paid for HRDOP priorities is significant, 32.09%. It was higher in proportion in case of the Central Transdanubian region but the largest amount of grant was given to the municipalities of the Southern Transdanubian region. Comparing the results of the Southern Transdanubian region to the national regional average, it is obvious that the awarded project grants were behind the national average in terms of all the operative funds.

Examining the finance aspects of grants awarded in the operative programs it can be stated that the local governments could obtain subsidy funds under very favourable financial conditions, since only 12.51% own source should have been ensured by the municipalities of the Southern Transdanubian region between 2004 and 2006 (Figure 7). The HRDOP priorities required the lowest own resources: only 0.63% of the total project costs, while the highest own sources should have been provided by the municipalities in the ECOP project proposals. The highest grants were awarded for ROP priorities to the local governments within favourable finance structures.

Figure 7

Grants awarded per thousand citizens, municipality fund bound and paid in the examined regions in the frames of the National Development Plan, in March, 2011



Source: National Development Agency, 2011

Examining the grants per 1000 citizens, we can see that the local government subsidies per 1000 citizens were the highest in the Southern Transdanubian region, exceeding even the national average. The reason for this was that comparing the

two examined regions, the population is lower and the grants relatively high in the Southern Transdanubian region.

The fund-raising ability of the local governments demonstrate to what degree they are able to obtain the available sources. *Table 2* shows that during the National Development Plan, the local governments of the Central Transdanubian Region were the most successful.

Table 2

The proportion of municipal resources in the region for all paid, committed and allocated within the application source (National Development Plan) in March, 2011

	South Transdanubia	West Transdanubia	Central Transdanubia	Average of regions
Grant awarded for local governments in ratio to the awarded grants in the region, in %	29.96%	19.25%	38.41%	25.96%
Amount of grant paid for the local governments in ratio to the grant paid in the region, in %	30.78%	19.80%	38.02%	26.06%

Source: *National Development Agency*, 2011

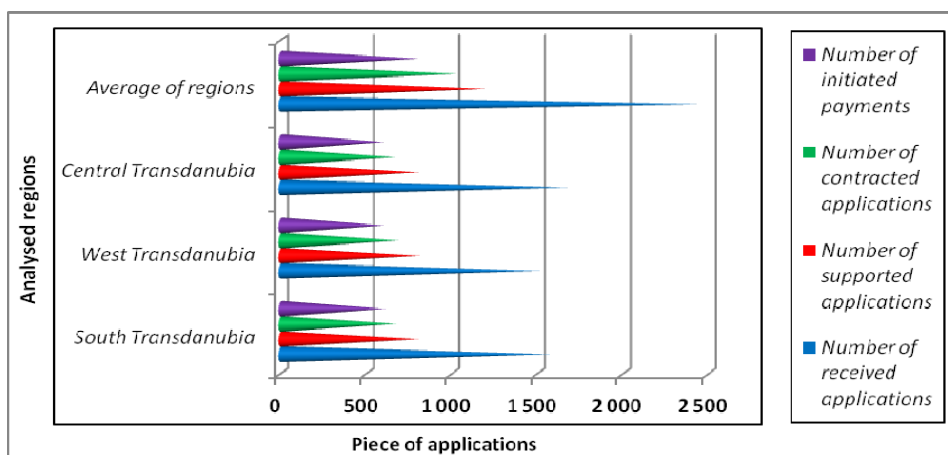
It can be due to the fact that the total awarded and paid grants were the lowest in this region out of the examined three regions. The local governments of the Southern Transdanubian region were the second in this rank, with a value higher than the national average. The third of the grant allocated to all the regions was awarded and paid to the beneficiary municipalities in this region.

New Hungary Development Plan

The examined data prove that the greatest number of project proposals were submitted and the grant contracts were signed by the local governments in the Central Transdanubian region, thus beating the Southern Transdanubian and Western Transdanubian region. The experiences in case of the National Development Plan are different. As regards the awarded projects, the local governments of the Southern Transdanubian region have the best results, as in case of the started payments, too. Similarly to the previous programming period the outcomes of the examined regions do not reach the national average. Examining the efficiency, it can be stated that the project proposals submitted by the municipalities of the Western Transdanubian region were supported to the greatest extent, 53.71% of their submitted proposals were successful. The rate of the contracted projects was the highest in this region, too, with 84.46% rate until March, 2011.

Figure 8

Number of submitted, awarded, contracted and paid (payment at least started) projects in the examined regions (New Hungary Development Plan), as by March, 2011



Source: National Development Agency, 2011

The New Hungary Development Plan has been offering new development sources for the local governments since 2007 (Figure 9). Until March 2011, the highest requested grant (225.26 billion HUF), awarded grant (132.18 billion HUF) and transferred grant (60.09 billion HUF) was awarded or paid for the municipalities of the Southern Transdanubian region, as against to the data of the National Development Plan, where the highest project sources were awarded and bound for the local governments of the Central Transdanubian region. It should be noted that there has been a change in the ranking of the two regions, because the grants requested, awarded and contracted by the local governments of the Western Transdanubian region were higher.

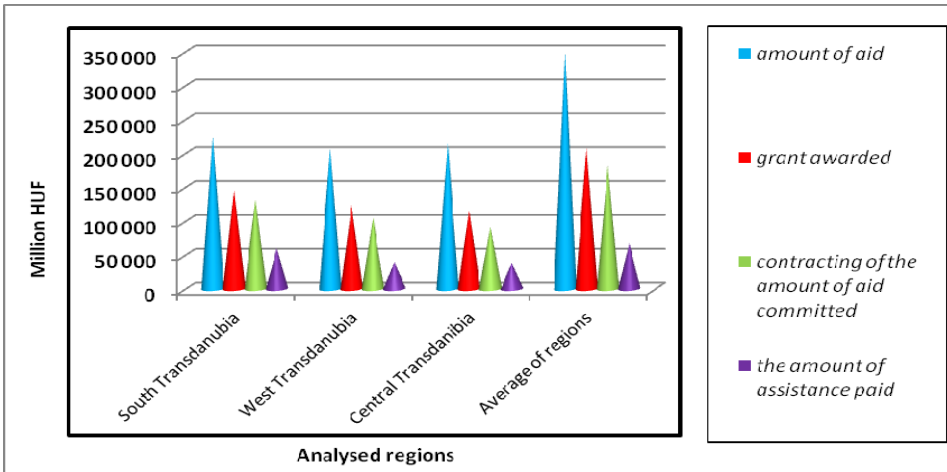
At the same time there was a lagging behind the regional average of municipalities similarly to the experiences with the National Development Plan. It should be highlighted that the grant paid until March 2011 has far exceeded the values of the two other examined regions, by 57.9% and 52.65%. It was due to the significant development actions that took place because of the series of events in 2010 connected with the Cultural Capital of Europe title of Pécs. High amounts of funds were transferred for these events, it amounted to 38% of total grants awarded to the local governments of the region.

The local governments of the Southern Transdanubian region had the highest efficiency concerning the obtained grant because almost two-third, 64.40% of the requested amount was awarded to them. The progress of the projects is indicated by the fact that these indices are the highest in the Southern Transdanubian region because 91.12% of the awarded grant was bound in the contracts of local governments and 45.46% of the grant was paid until March 2011 (Figure 10) Comparing it with the data of the National Development Plan it can be stated that the awarded grant is higher in proportion to the requested amount in all the

examined regions. The greatest progress in this regard was at the municipalities of the Southern and Western Transdanubian regions which indicates the improving fund-raising skills and adaptation to the project proposal system.

Figure 9

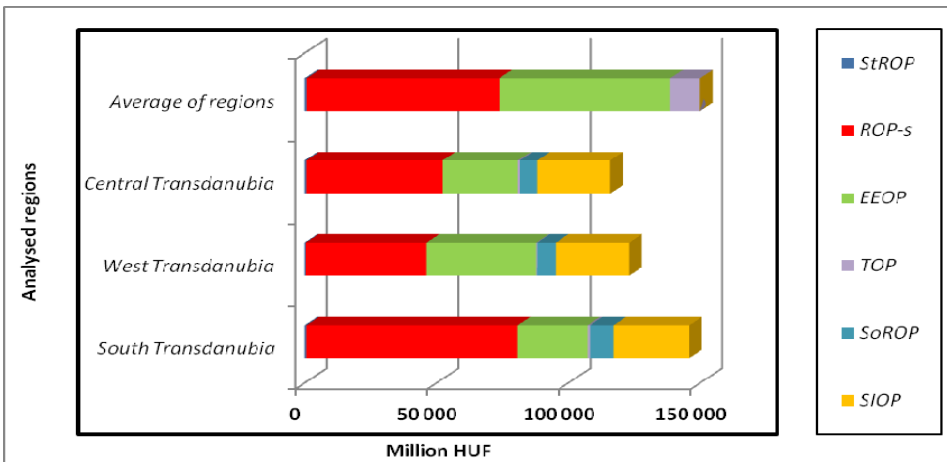
Grants requested by the local governments, awarded, contracted and paid in the frames of the New Hungary Development Plan in the examined regions, in March, 2011



Source: *National Development Agency, 2011*

Figure 10

Distribution of municipality grants awarded in the frames of the New Hungary Development Plan among the examined regions, in March 2011



Source: *National Development Agency, 2011*

As regards the distribution of awarded grants among the operative programs, the greatest funds (54.92% of the total awarded grants) were provided for the priorities of the Southern Transdanubian Operative Program in the frames of the New Hungary Development Plan (Table 3). The second highest amount was given for SIOP priorities and the third largest amount went for EEOP targets. In case of the other two examined regions, the greatest sources were also provided to the municipalities for the operative programs of the given region. The grants given for StROP and TOP priorities are small in the Southern Transdanubian region and the tendencies are similar.

Table 3

The distribution of awarded grants among the operative programs

Operational programme	Grant awarded, Millon HUF	Own source, Millon HUF	Total project cost, Millon HUF	Intensity, %
StROP	634.53	52.95	687.47	92.30%
ROP-s	79 875.40	22 912.58	102 787.98	77.71%
EEOP	26 407.00	7 479.76	33 886.77	77.93%
TOP	968.15	12.34	980.49	98.74%
SoROP	8 918.57	0.00	8 918.57	100.00%
SIOP	28 791.28	3 209.77	32 001.05	89.97%
Total	145 594.93	33 667.40	179 262.33	81.22%

Source: *National Development Agency*, 2011

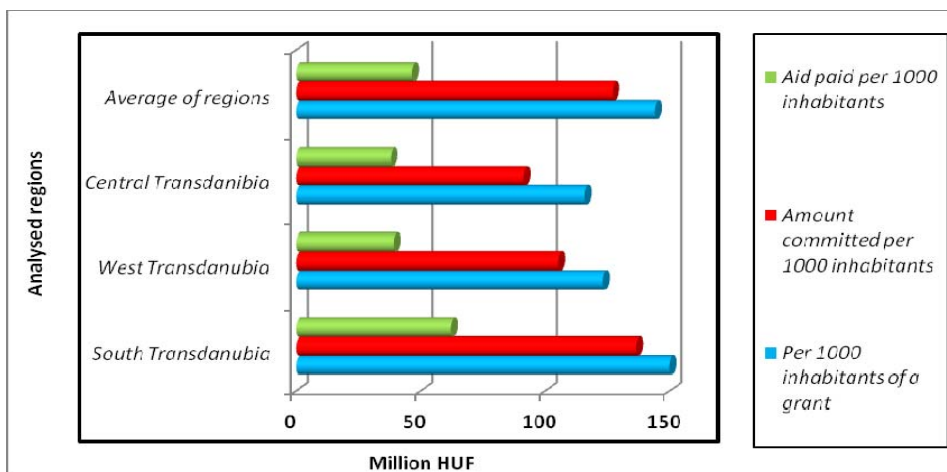
As regards the finance aspects of the awarded municipality grants it can be stated that the own source provided by the municipalities increased compared to the the National Development Plan, because an average of 18.78% own source should have been ensured for the grants awarded until March 2011 according to the support decisions. The SOROP priorities are the most favourable for the local governments concerning the finance aspects because the announcement of the operative program aiming the human resources development covers the total costs of the projects. Among the examined operative programs the projects announced in the frames of DDOP and EEOP require the highest own sources from the local governments, 23.29% and 23.07% respectively until March 2011.

Regarding the grants per 1000 citizens, the tendencies are the same as in case of the National Development Plan: the highest grants per one citizen, the highest amount bound and paid was in case of the municipalities of the Southern Transdanubian region (Figure 11).

Thus this region preceded the two other examined regions and exceeded the regional average of local governments. The reason for this was that the local governments of the Southern Transdanubian region had the highest awarded and paid subsidies among the examined three regions and the population is the lowest in this region.

Figure 11

Grants awarded per thousand citizens, municipality fund bound and paid in the examined regions in the frames of the New Hungary Development Plan, in March, 2011



Source: National Development Agency, 2011

In the frames of the New Hungary Development Plan, until March 2011, the local governments of the Southern Transdanubian region could obtain the greatest sources in proportion to the total amount of grant, in contrary to the National Development Plan (Table 4).

It is because this region received the lowest support among the three examined regions. It can also be due to the high amount of funds paid for the European Cultural Capital projects of Pécs that has already been transferred because of the complete realization. In case of the Western Transdanubian region, the rate of municipality subsidies is higher than in case of the National Development Plan, but the ratio of the local governments of the Central Transdanubian region is lower. It can be explained by the increasing share of the other beneficiaries, who absorbed significantly higher amount of funds than during the former programming period.

CONCLUSIONS

Evaluating the projects won by the local governments of the Southern Transdanubian region and cofinanced by the European Union, it can be stated that altogether 165.82 billion HUF grant was awarded for the municipalities of the region. Out of this amount, 80.30 billion HUF had been paid until March 2011. Out of the Transdanubian regions, the local governments of the Southern Transdanubian region received the highest amounts of development funds, although it was still behind the calculated regional average. In spite of this, in our opinion, the municipalities of the region have adapted well to the project proposal system, prepared for the absorption of development funds, because 97.30% of grants awarded in the projects within the National Development

Plan Operative Programs were actually paid to the local governments, which was the highest value in the examined regions. In addition to this, it can also be stated that the realization of projects announced in the frames of New Hungary Development Plan are also in advanced state because almost half of the awarded grants have been paid for the municipalities until half of the programming period. It is also above the performance of the other two examined regions.

Table 4

The proportion of municipal resources in the region for all paid, committed and allocated within the application source (New Hungary Development Plan) in March 2011

	South Transdanubia	West Transdanubia	Central Transdanubia	Average of regions
Amount of grant awarded for the local governments in ratio to the grant awarded in the region, in %	45.93%	27.74%	29.04%	35.25%
Amount contracted by the local governments in ratio to the amount of grant contracted in the region. in %	47.95%	26.30%	26.06%	34.56%
Amount of grant paid for the local governments in ratio to the grant paid in the region, in %	50.20%	24.43%	28.38%	34.07%

Source: *National Development Agency, 2011*

Reviewing the target areas of developments, the municipalities of the Southern Transdanubian region received grants in both programming periods mostly for the priorities of the operative programs aiming the development of the region, including the catching up of the region, enhancement of touristic potential, rehabilitation of settlements, ensuring easier access to public services, development of transport infrastructure and investments in Pécs connected with the program series of Cultural Capital of Europe in 2010. The local governments obtained considerable funds for developing and updating the educational and health infrastructure and expanding the public services in these areas, as well as in order to

reach progress in environmental protection and safety, life quality in settlements and energetical modernization.

Considering the finance aspects, the local governments and their institutions could realize the development projects under favourable conditions, at a medium high support intensity. Higher own source level was needed primarily in case of construction investments. In order to finance these investments, the local governments could involve external sources and apply for the Own Source Fund.

In summary: the Cohesion Policy of the EU has projected the possibilities of renewal and catching up for the local governments of Hungary, too, in case of rational utilization, which could be realized for most of the municipalities in the Southern Transdanubian region. The development projects, however, will have a long-term impact. The survey of the actually favourable or unfavourable effects, the evaluation of their financial feasibility should be the target of further research.

REFERENCES

- Huba-Varga, K., Dobay, Á. (2007): European Union grants, writing project proposal and project management Pécs : Baranya megyei Vállalkozói Központ, [online] <URL: www.bmvk.hu>
- Káposzta, J. (2007): Regional Economics. Debrecen: DE-ATC, A területpolitika főbb összefüggései. 208-259. p.
- Kengyel, Á. (2009): Cohesion and Financing. Budapest : Akadémiai Kiadó, Magyarország és az uniós források, 207-251. p.
- Kleinheincz, F. (2006): New Strategy, New Challenges. (In Hung.) In: Falu város régió, Budapest : Váti Kht, 4. 4-7. p.
- Kullmann, Á. (2009): Regional distribution of grants from the 1st National Development Plan (HU) In: Comitatus önkormányzati szemle, 4. 47-56. p.
- Lóránd, B. (2009): Operative programs in support of the regional cohesion in case of the 1st National Development Plan. (In Hung.) In: Területi statisztika, 5. 508-520. p.
- Magyar Köztársaság Kormánya (2007): New Hungary Development Plan
- Nemzeti Fejlesztési Hivatal (2004): National Development Plan strategy and priorities. Budapest : Nemzeti Fejlesztési Hivatal
- Nemzeti Fejlesztési Ügynökség [online] <URL: www.nfu.hu> [11-03-2011]
- Nemzeti Fejlesztési Ügynökség: Jelek lekérdező keretrendszer. [online] <URL: www.emir.nfu.hu> [11-3-2011]
- Órsi, G.J. (2007): New Hungary Development Plan with a critical eye. (In Hung.) In: Politikai elemzések, 19. 91-100. p.
- Területfejlesztési és Területrendezési Információs Rendszer [online] <URL: www.teir.vati.hu> [11-03-2011]