

**LOCAL DEVELOPMENT AND INNOVATION IN RURAL AREAS AND SMALL TOWNS IN
EUROPE**

Chydenius Institute, Kokkola, Finland
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**RURAL DEVELOPMENT ALTERNATIVES: INNOVATIVE FARM &
RURAL BUSINESS MANAGEMENT APPROACHES IN HUNGARY**

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Abstract

Rural areas are undoubtedly the major losers of the political changes in Hungary. One of the main reasons for the declining economic position of rural areas is the decline in the performance of the agricultural sector, the measurable regression in terms of both the absolute and relative figures of its added value content. The most serious problems of the rural economy and society are: high unemployment ratios, increasing economic inactivity, poor infrastructure, as well as poverty, furthermore the lack of being well organised on the local level and the lack of public trust within the rural communities. As a consequence, local communities are in the process of being eroded, outward migration is on the rise, and the so-called “forced enterprises” are spreading. Serious efforts are needed in the future, in order to restore public trust, to strengthen civil movements and to increase the political weight of local democracies within the rural communities. Furthermore, through the actual dissemination and implementation of the LEADER methodology, it is of major importance to raise awareness, to improve skills and to develop the necessary expertise needed to adopt the “bottom-up” approach in project development and in fund raising activities. The terms of rural area and rural development are used in a wide range of different meanings in the Hungarian language, the definitions show a great variety, not only in everyday usage, but also in the relevant literature. One of the reasons for that is the fact that rural development as an academic discipline is as yet immature, and is not sufficiently defined. The issue came to the forefront of various studies mainly during the process of EU accession. Within the framework of the European agricultural and rural development policies, now undergoing a transformation, agriculture is being considered as a multifunctional, organic system, and within the wider context of this overall system, the protection of the natural environment, the capability of the region to preserve local population, the maintenance and development of local values are all factors playing an equally important role as production itself.

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It is the intention of this article to highlight the most crucial problems of rural development in Hungary, through the European interpretation of the terms of rural area, rural development policy and rural development project. The conclusions are based on a case study of an innovative farm and rural business as well as on the findings of relevant international literature. It is pointed out that in further exploring the issue in the future, in disseminating the results and expertise, in addition to analyses on the macro-level, it will be of vital importance to adopt a problem oriented local community approach. The article emphasizes the importance of using “bottom-up” approach in local development process as well as the creation and dissemination of models and case studies with the aim of helping regional and local innovation.

Rural areas and their structural characteristics

In the EU the conceptual definition and the spatial designation of rural areas are based on the recommendations of the OECD¹ according to which settlements with a population density of 150 inhabitants/square kilometre or less can be regarded as “rural”. Within the framework of the relevant EU classification, however, the limit value of the population density is less than that of the OECD, it is 120 inhabitants /square kilometre. The spatial designation of these regions, on the other hand, is – uniformly – based on the distinction of the following types of areas:

- Predominantly rural area, where more than 50 % of the population live in rural communities;
- Significantly rural area, where some 15-50 % of the population live in rural communities; and
- Predominantly urban area, where less than 15 % of the population live in rural settlements.

According to the classification of Hungary’s territory, which was carried out using these spatial designation categories in accordance with the EU standards after the Hungarian Territorial Development Act had come into force (1996), the overall majority of Hungary’s territory, areas accounting for 96.1 % of the country’s total area are classified as rural area, where approximately three quarters (73.6 %) of the population live, and this distribution pattern has not significantly changed ever since (Table 1).

A comparison with the data of the EU-15 highlights the fact that Hungary, as a consequence of her unique spatial structure of settlements, is a significantly rural country. The proportion of the significantly rural areas exceeds that of the EU nearly 15 %, and the proportion of the population living in these rural areas is almost three

¹ The OECD definition is based on the share of population living in rural communities in a given NUTS III region. This is the only definition of rural areas internationally recognised. However, in some cases it does not fully take into account the population living in more densely populated rural areas, particularly in peri-urban zones.

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and a half times higher than that of the EU. The proportion of the population living in predominantly and significantly rural areas altogether is by 34 % higher in Hungary than the respective average of the EU-15.

Table 1*: Comparison of territory, population, and population density of rural areas in Hungary and EU-15.

Rural areas	Territory		Population		Population density, people/ km ²
	Km ²	%	Thousand people	%	
Total in Hungary	93,030	100.0	10,135.4	100.0	108.9
- Predominantly rural	57,235	61.5	3,395.0	33.5	59.3
- Significantly rural	32,170	34.6	4,064.5	40.1	137.9
- Predominantly urban	3,625	3.9	2,675.9	26.4	738.2
Total in EU-15*	3,230,800	100.0	372,000	100.0	115.1
- Predominantly rural	1,518,476	47.0	36,084	9.7	23.8
- Significantly rural	1,208,319	37.4	11,0856	29.8	91.7
- Predominantly urban k	504,005	15.6	225,060	60.5	445.5

Source: National balance of labour. Central Statistical Office CSO, 1998, *EUROSTAT, 1997.

It is a remarkable fact that the rural development policy of the EU has been emerging in close and organic correlation with the historic development process of the Common Agricultural Policy (CAP) over a period of half a century. It was as soon as the preparation of the Treaty of Rome that the specific regional characteristics of the agricultural sector were articulated: "...in working out the common agricultural policy and the special methods for its application account shall be taken of the particular nature of agricultural activity, which results from the social structure of agriculture, and from structural and natural disparities between the various agricultural regions ..."² This statement played an incredibly important role in launching the reform measures within the CAP in later years (1992, 1999, 2003 – 2004), and prevented a biased or one-sided approach from being enforced. As a result of the CAP reforms, the community's commitment has been gradually increasing towards the preservation of the agro-environment, as well as the creation of rural areas that are more attractive for the people, expressed also in the policy measures of the Structural Funds.

In the course of the enlargement process, because of the predominantly rural character of the 10 accession countries, the emphasis attached to the rural development policy of the EU has been further increased. "...rural regions represent in the EU-25 92 % of the territory. Furthermore, 19 % of the population live in predominantly rural areas, and 37 % live in significantly rural regions. These regions generate 45 % of Gross Value Added (GVA) in the EU-25 and provide 53 % of the employment, but tend to lag as regards a number of socio-economic indicators, including Structural Indicators, compared to non-rural areas..."³ In terms of land use, agriculture (forestry included) is still the most significant sector, which plays a key-role in preserving the natural

² Treaty of Rome, Article 39, Paragraph 2

³ Commission of the European Communities (2005): Proposal for Council Decision on Community strategic guidelines for Rural Development (Programming period 2007-2013). Brussels, 5 July 2005.

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resources of rural areas, furthermore, it provides an extremely valuable contribution to the socio-economic development of these regions.

Table 2: Comparisons of some macroeconomic indicators in the major European rural region categories

Indicators	Predominantly rural regions	Significantly rural regions	Predominantly urban Regions
GDP per capita (EU-25=100)*	71	86.8	124.7
Unemployment rates**	11.1%	10.7%	8.1%
Agricultural employment ***	13.1%	6.6%	2.0%
Employment in service ****	56.7%	63.1%	70.2%
Employment in industry	29.9%	30.4%	27.9%

Source: European Commission, 2004.

* Average 1999-2001 in purchasing power standard: in the new Member States the income differential between rural and urban regions is even more marked.

** Average 1999-2001, in % of active population

*** Percentage of the labour force working in agriculture, hunting, forestry and fisheries

**** There are indications that the share of public employment in services is higher in the more rural areas.

The survey carried out by the European Commission on the basis of the latest statistical data (Table 2) makes it possible to compare the three types of regions used in the spatial classification system on the EU level, by examining macro-economic indicators, which render the socio-economic problems measurable. The considerable differences in terms of the structural characteristics of local economies are immediately discernible, and – on the other hand – it is striking that most of the vital problems we have to reckon with, are to be faced in rural regions. If we go into further details and examine the data on the level of the Member States, it enables us to draw conclusions on how these structural characteristics influence the quality of life of those living in the rural areas of the old, and the new Member States. The low level of the GDP and the high unemployment rate are striking characteristics mainly in the 10 new Member States, but also in some regions – regarded as peripheral in terms of rural development – of the EU-15 (e.g. Portugal, Spain, Italy, Greece, Finland). By comparing some selected, specific economic and employment indicators of the regions in Hungary, the conclusion can be drawn that in terms of rural development there are striking disparities and disproportions between the regions. On the basis of the data of the year 2003, published by the CSO⁴ the gross domestic product GDP per capita shows a figure in the Central Hungary region that is two and a half times higher, and in Budapest – which is part of this region – is three times higher than that

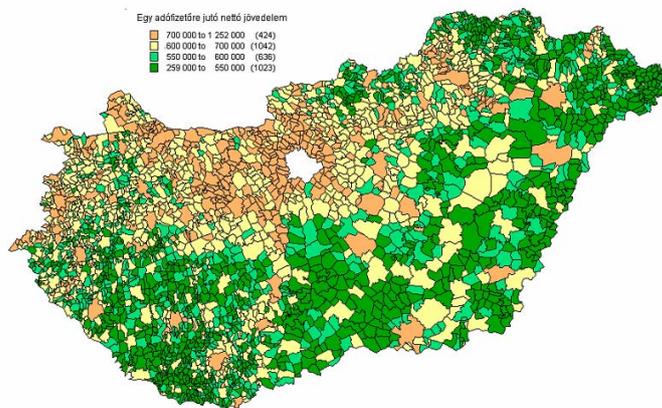
⁴ Hungarian Central Statistical Office (2005): Pocket-Book of Hungarian Regions 2004.

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of the Northern Plain, the Northern Hungary and the Southern Plain regions, and is also higher than that of the Southern Transdanubia region, which has somewhat more favourable figures than those in the northern and southern parts of the country. The unemployment rate in the Northern Hungary region is more than double (9.7 %), in the Southern Transdanubia region (7.3 %) and in the Northern Plain region (7.2 %) it is more than one and a half times higher than the respective figure (4.5 %) of the indicator in the Central Hungary region. The figures showing the proportion of the economically inactive population are the highest (49.5 – 50.9 %) in these relatively backward regions, which is clearly the indication of an even graver situation. The very high degree of the concentration of incomes in the area around the capital city is clearly demonstrated by the map showing the average net personal income of the taxpayers of each settlement (Figure 1.). A little more than one tenth of all of the settlements can claim the highest net personal incomes (700 thousand – 1,252 thousand HUF/year), and most of these settlements are concentrated around the capital city. On the other hand, the settlements with the lowest net personal incomes (259 thousand – 550 thousand HUF/year), which account for one third of all the settlements, are located further away from Budapest, in the peripheral areas of the country (Figure 1).

Figure 1: The differences in incomes between the settlements, on the basis of the average net personal income of taxpayers in 2001⁵



Declining importance of agriculture, the rural problems in Hungary to be solved

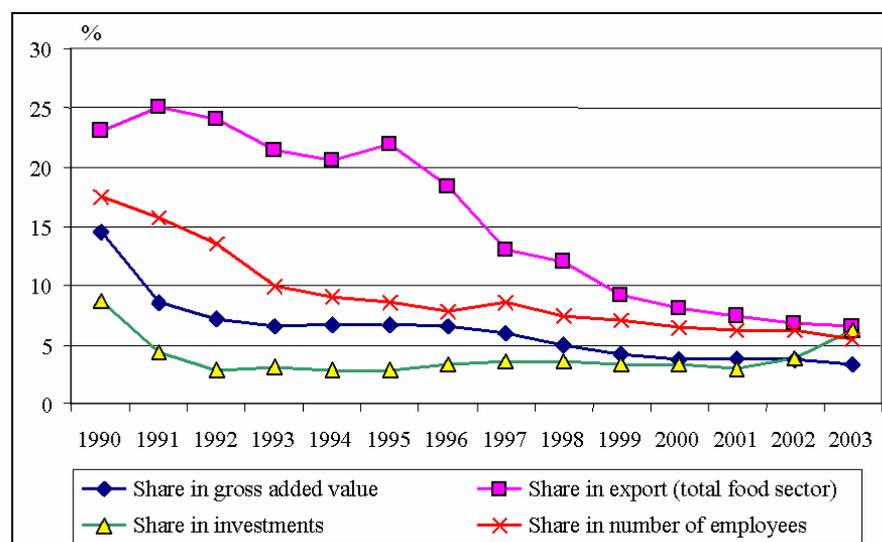
Since the political changes, the share of the agricultural sector (including forestry and fishery) within the national economy has been gradually decreasing, similarly to the tendency experienced in the developed countries (Figure 2).

Figure 2. Declining share of the agricultural sector within the national economy since the political transition⁶

⁵ Bihari, Zs., Kovács, K., Koós, B. (2004): "Slopes or slip-ways", the spatial disparities of employment at the turn of centuries in Hungary. Manuscript.

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Source: Central Statistical Office (CSO)

From one aspect, this shift in the proportions indicates a positive tendency, inasmuch as Hungary has a position at the moment in the middle of the zone of 2-5 %, characteristic to the majority of the EU-15. However, the decrease of the performance of agriculture, that is measurable both in terms of relative and absolute figures, is one of the most important reasons for the economic problems of the rural areas in the course of the economic transition, a process that lasts much longer than it had been anticipated. The share of agriculture within the GDP used to be as high as 5.9 % in 1995, whereas since 2000 the figure went below 4 % in each year, and in 2004 it was no more than just 3.2 % (Table 3). The employment rate of the sector was as high as 8 % in 1995, but by 2004 it has been reduced to almost half of this figure (4.3 %).

In order to make a correct assessment of the economic importance of the sector, it is useful to take into consideration that the share of agriculture in the GDP as a statistical data (Table 3) is calculated by only including the share of the primary material production. Should the production of the food industry be included, this statistical figure would be higher by some 3-4 %. If the entire agri-business (fertilizer and pesticide production, agricultural machine and spare parts industry, furthermore the distribution of goods, as well as agricultural sales, transport, education, research, etc. activities) would be taken into consideration, the share of the agricultural sector within the GDP would be higher by further 3-5 %.

⁶ Source: Hungarian Agricultural Economics Research Institute AERI, on the basis of the data of the Central Statistical Office (CSO).

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Table 3: Share of agricultural sector in the national economy of Hungary

Year	Share of agriculture in				Employment ^{c)}	Balance of foreign trade turnover ^{a)} , Billion HUF ^{d)}
	GDP	Consumption ^{a)}	Export ^{a)}	Investments ^{b)}		
	Current price %					
2000	3,7	27,7	6,9	5,0	6,5	302,2
2001	3,8	27,7	7,5	6,2	6,3	374,8
2002	3,3	27,5	6,8	6,3	6,2	308,9
2003	2,9	27,0	6,6	6,2	5,5	301,1
2004	3,2 ⁺	26,7 ⁺	6,0 ⁺	4,3	5,3	243,1 ⁺

Source: Hungarian Central Statistical Office (CSO): Agricultural production. Budapest, 2004.

a) Agricultural and food products

b) Calculations based on the Economic Accounts of Agriculture (EAA)

c) Data of labour market surveys (with forestry sector)

d) Current price

⁺ Preliminary statistics (estimates of Agricultural Economics Research Institute, AERI experts).

The considerable decrease of the added value content of the domestic agricultural production has several interrelated reasons, the detailed discussion of which, because of the limited size of this study, is not possible here. Just as a short list, the most important reasons will be mentioned. One of the reasons is the regression in food consumption, especially in the case of food products produced in this country, the decrease of the producers' income in general, and as a consequence of all these factors mentioned above, the decrease in the overall volume of production, with a shift of proportions between animal husbandry and plant production, whereby animal husbandry is in a negative process compared to plant production. Another reason is the lack of foreseeable, calculable market conditions, and the fragmented, unsettled structure of land ownership. The third reason is the insufficient flow of information among the players on the market, the low level of knowledge of the farmers in the fields of environmentally conscious farming, business management, professional marketing of food products, quality management, etc., as well as the farmers' weakness in terms of their skills in co-operation and integration. Last, but not least, the deficiencies in the collaboration between the agricultural production sector producing primary materials and the food processing sector, the collapse of the old "production chains", and the barriers hindering the establishment of new ones, etc. are to be mentioned.

In order to give an overall description of the recent socio-economic situation of rural areas, first we would like to present here a passage quoted from one of the polemical essays prepared as part of the public debate that had been launched this spring under the title "Public Dialogue for the Rural Areas". The passage is the following: "A considerable part of the population living in the rural areas of Hungary cannot see any promising prospects in the future, since the opportunities of livelihood are scarce, the

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economic structure is out-of-date and obsolete, the population is ageing, the level of training and qualification of the members of the active working age-group is low, and the income – in all possible comparisons – proves to be far too little. If the income is little, then there are no financial resources available for learning, and for putting an end to the physical and intellectual isolation either. In several rural areas there is an ever-worsening contradiction between the proceeding globalisation in the outer world and the pressure to try to find a solution for the future in a narrow and limited space. As far as the chances of these geographical pockets to have access to the market, as well as their capability to attract capital are concerned, future prospects are increasingly alarming. The high proportion of gipsy people within the total population is to be regarded as an aggravating circumstance.”⁷

In an attempt to provide some complementary elements to the “diagnosis” quoted above, some of the vital, most burning issues, and the problems to be solved in the field of rural development in Hungary, are highlighted below, decidedly from the specific point of view of rural areas:

- The indicator of economic activity of the country has significantly declined as compared to that of the period before the political transition, and what is more, it is extremely low in the international context as well, at present the figure is 57 %. In the predominantly rural areas of the country, at the same time, the indicator has drastically decreased to a very low level, and it is at the moment just 30-35 %, which anticipates an even more alarming future;
- Unemployment and inactivity are among the most serious problems of rural society and economy. Following the political changes the number of jobs in rural areas decreased by more than one million, out of which the loss of no more than 350-400 thousand jobs can be imputed to the transformation of the former large scale farming system. The long-term consequences of this loss of jobs equally afflict the people living in villages and small towns, and indeed, in some areas even those living in medium sized towns. Unfortunately that applies just as much to most parts of the mining- and industrial regions, as it applies to those villages and small towns, where it was mainly agriculture that used to provide livelihood for the people living there;
- Unemployment is considerably higher in villages, than in towns. One of the consequences of the high unemployment rate in rural areas is the outward migration of the population and the spread of the so-called “forced enterprises”;
- The deficiencies of the national agricultural policy, which falls within the scope of the Common Agricultural Policy (CAP) (the delay in the modernisation of the productive sector, an unsettled institutional system, unexploited community resources, e.g. the SAPARD Programme, budgetary shortages in financing, the bureaucratic management of the community financial resources allocated for rural development purposes, biased or one-

⁷ Udovecz, G., Bedő, Z. (2005): The vision of the rural economy. Public debate under the title “Dialogue for the Rural Areas”, May 2005. Manuscript.

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- sided decisions on the re-allocation of resources, ignoring the interests of the rural areas, etc.) represent uncertainties and threats for the players of rural economy and society;
- There exists no finalised national rural development programme, which would be valid, foreseeable and reliable in the long term, so the preparation of the national and local rural development plans is influenced by the standard “compulsory planning procedure” associated with the utilization of the financial support provided by the EU Structural Funds;
 - There is no alignment and appropriate coordination between the various development policies (“regional development”, “rural development”, “social policy”, “agricultural policy”, etc.) at the level of national administration;
 - There are still a number of barriers (the low level of public trust, the infirmity of local democracies, the lack of professionals and experts, the lack of information, poor infrastructure, etc.), which hinder the community’s principle of subsidiarity from coming into effect, in other words the “bottom-up” approach in planning and the more active involvement of the local communities are still limited.

The European agricultural and rural development policy under transition and the development of eco-farming in Hungary

In the process of the adaptation of the Common Agricultural Policy (CAP), Hungarian agricultural policy is undergoing a significant structural and substantial transformation. The agricultural policy characterized by one-sided production- and market orientation, must gradually evolve into an agricultural-rural development policy, which is capable of enforcing both environmental and quality requirements, and is oriented towards problem solution.

As a result of the reform of the CAP in 1992, Council Regulation (EEC) No. 2078/1992 on the support of agricultural production methods compatible with the requirements of the protection of the environment and the maintenance of the countryside came into force. Thereafter, in a surprisingly short period of time – by the end of the seven-year-long budgetary term – yet another new reform package has been prepared under the title “AGENDA 2000”. Having adopted this document at the Berlin Summit in 1999, rural development has been built into the common agricultural policy, and besides market regulation it has become the “second pillar” of the CAP. This decision was accompanied by a further updating of the relevant legislation. The same amount of time was needed in Hungary during the accession process to make the necessary amendments in legislation in order to adapt the achievements of the CAP reform. It was, in fact, in 1999 that the Government Decision on the measures necessary for the National Agro-Environmental Programme (NAEP) and its implementation came into force, on the basis of which the legal harmonisation of Hungary’s agricultural legislation, taking into consideration the agro-environmental aspects, at last started at a very slow pace. In the Regulation on the NAEP, the objectives and principles of the development of a sustainable agro-environment have been defined in conformity with the EU regulations: “...to develop an agricultural practice, which is based on the sustainable use of natural resources, the

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preservation of natural values and biodiversity, and the production of healthy products.” “The widespread introduction of environmentally friendly agricultural production methods, thereby the achievement in the agricultural sector of the objectives of environmental protection, as well as the preservation and the improvement of the condition of natural values, the landscape, soil quality, and water resources.”⁸ According to the original schedule this programme will have to be completed in 2006, before the new budgetary period will start. The question arises as to how the objective evaluation of the actually achieved results will be carried out in accordance with the standard requirements of the EU and according to the indicators of the programme, and whether we will be able to utilise the lessons learnt over this process in the preparation and the rapidly developing enforcement practice of environmental legislation?

The up-to-date agricultural production and food production, meeting the increasingly rigorous quality requirements, by now can be described with the following key-words in the EU: consumers’ demands, quality standards, healthy products, environmentally safe techniques and technologies, attractive rural landscape, local fund raising based on community involvement. According to the latest surveys and public polls, the competent proportion of the food consumers in the EU are of the opinion that the responsibility for food safety lies with the entire food producing sector, in other words, each and every player of the “producers’ chain” is equally responsible for it, from the farmer who produces primary materials, to the purchasing agency, the manufacturing and processing industry, the merchant and the retail dealer.

The CAP reforms of June 2003 and April 2004 – with which, in fact, a “continuous reform” started – have significantly amended the objectives of both agricultural market regulation and rural development policy, in terms of their contents, proportions and the overall context as well. The primary aim of these reforms was to establish a system whereby financial resources can be re-allocated, and transferred from the market- and income subsidies of the first pillar of the CAP to the financing of the protection of the agro-environment and rural development. The reform, that seems to have now become continuous, poses challenges and offers opportunities for finding more effective solutions for the problems of rural development in the future in the new Member States.

Following our EU accession on 1 May 2004, because of the challenges due to the liberalised market and the increasing competition, it is likely that both the management approach of the agricultural enterprises and the methods applied by them will develop at a more rapid pace. That is because the reformed CAP has not only the intention to stimulate compliance with the agro-environmental requirements, but it also holds out the prospect of introducing more rigorous supervisions and legal sanctions in terms of reducing the amount of subsidies, in accordance with the requirements of the so-called “cross compliance”. This means that various standards in the field of environmental protection, food safety, animal welfare and animal health

⁸ Hungarian Government Decree No. 2253/1999 (X.7.).

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are to be regulated and defined in detail in the form of regulations.⁹ Consequently, it is to be expected that both the agricultural producers and the decision makers of agricultural policies will increasingly focus their attention on promoting and disseminating environmentally friendly technologies, and on the sustainability of rural areas.

It is a positive phenomenon that following the launch of the NAEP, organic farming has become increasingly popular and widespread in the country. As a result of the new support schemes that had been launched at a rather slow pace, the number of controlled organic farms has nearly doubled in just a few years time. The event preceding and leading up to this was that in the year 2001 the total amount of the financial support provided for organic farms reached the sum of 2.5 billion HUF, which was, compared to the previous years, indeed an increase by leaps, in fact the amount of subsidies was 25 times higher than that of the previous year. As for the keen interest excited by the support scheme, it clearly shows the open-mindedness of the Hungarian farmers to learn and try the new environmentally friendly agricultural technologies and to apply those also in practice.

Over the last six years approximately 1,000 farms have been converted from the old system to the new farming method, and by this means the area of the cultivated land has increased to almost 140,000 hectares. The number of organic farms actively involved in the domestic distribution and the export of organic products increased to approximately 1,500 in the year 2004, and over the last three years the annual growth rate was 30-60 % (Table 4 and Figure 3). The proportion of agricultural land managed with organic farming methods is today as high as 2.2 % of the total area of cultivated land.

Table 4: The land area and the number of certified and in-conversion organic farms in Hungary (1996 – 2004)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	Increase, % 2003=100%
Land area, hectare	9,300	15,772	21,565	32,609	47,221	79,178	103,700	113,535	133,009	17.2
Number of eco-farms	120	161	330	327	471	764	915	1,084	1,447	33.5

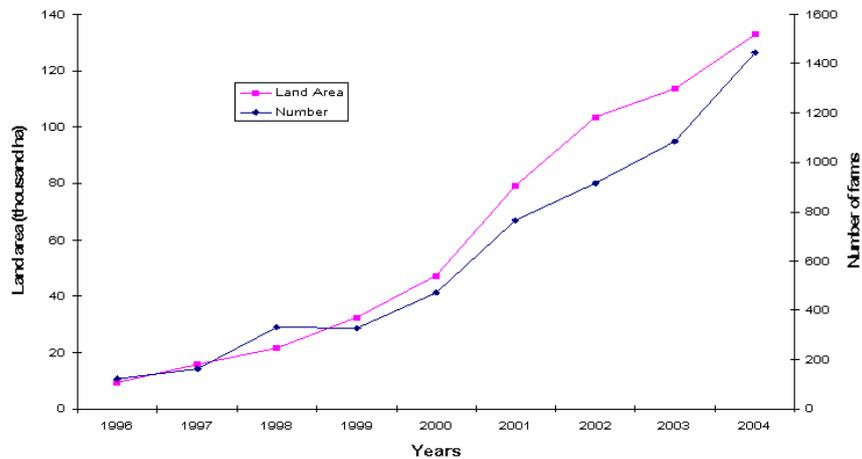
Source: Vörös, M. 2005.

Figure 3. Increase of the land area and the number of certified and in-conversion organic farms in Hungary between 1996 and 2004

⁹ Council Regulation (EC) No. 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers (29 September 2003), as well as the 4/2004 (I.13.) FVM (Hungarian Ministry of Agriculture and Rural Development) regulation on the requirements to be met when applying for support within the Single Area Payment Scheme.

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Source: Vörös, M. 2005.

The Presidency Conclusions at the Göteborg meeting of the European Council is a document, which was to a great extent instrumental in outlining the new European rural development policy: “Strong economic performance must go hand in hand with the sustainable use of natural resources and levels of waste, maintaining biodiversity, preserving eco-systems and avoiding desertification. To meet these challenges, the European Council agrees that the Common Agricultural Policy, and its future development should, among its objectives, contribute to achieving sustainable development by increasing its emphasis on encouraging healthy, high quality products, environmentally sustainable production methods, including organic production, renewable raw materials and the protection of biodiversity.”¹⁰ It was this document, which was taken into account in the preparation of the new European rural development policy, which is oriented towards the implementation of the following three main “axes”:

- Increasing the competitiveness of the agricultural sector through support for restructuring;
- Enhancing the environment and countryside through support for land management; and
- Strengthening the quality of life in rural areas and promoting diversification of economic activities through measures targeting the farm sector and other rural actors.

The economic and social context representing the background for rural development is extremely extensive and complex. In the new budgetary period (2007-2013), even if the increase of financial resources is in reality not possible, through the establishment of the European Agricultural Fund for Rural Development (EAFRD).¹¹ The policy

¹⁰ Commission of the European Communities (2005): Proposal for Council Decision on Community strategic guidelines for Rural Development (Programming period 2007-2013). Brussels, 5 July 2005.

¹¹ Council Regulation (EC) No. 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

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measures and instruments of rural development will, by all means, undergo a transformation, the system will become more uniform, on the basis of which we can count on a further widening of the choice of environmental and rural development support schemes.

The fourth, so-called “implementation axis” within this new rural development policy is represented by the LEADER Programme itself, in the framework of which subsidiary and development fund generation based on community involvement will play a predominant role. This represents the capability for self-development, and the intellectual potential to be used in rural development of the local communities in rural areas and regions. In other words, it is all about how and to what extent these communities will be able to follow the principles of the “bottom-up” approach, to make an assessment of their unique values and specific characteristics, and what they will be able to do in order to efficiently make the most out of their potentials. That is to say, how they can transform their well-established local development strategies into creative projects and actions, through relying upon local initiatives. In the new Member States, among them also in Hungary, where the elimination of the over-centralised, concentrated systems is still an important issue and is still underway, it is more and more the case that only such a rural development policy can have justification, which is decentralised and which is based on local partnership and cooperation on each level (local municipality, sub-region, region, etc.).

Consequently, the successful implementation of the LEADER+ Programme launched this year poses a serious challenge to both those having prepared the programme, and the local action groups that have been set up during in the summer of 2005, from the point of view of the correct interpretation of the principles governing the EU support schemes and the responsibility for the management of these financial resources, as well as from the point of view of demonstrating the capability of local decision making and the existence of the regional management culture. In the learning process of the economic transition, that has been continuously going on even after the accession, the successfulness and the likely impact of the LEADER+ Programme depends to a great extent on how clearly the gradually re-establishing new democracies are able to recognise their own role in the process, and how radically will change the approach and the methods applied by those in power, with regard to their communication with the local communities, and with the people in general.

Research priorities: main sources of local innovation

In the process of adapting the sustainable and integrated European rural development policy in Hungary, which is to some extent a “learning”, and to some extent also a “work” process, and which requires quite a long time, a number of specific, professional issues and problems arise, the correct answers to which make it imperative that research activities in rural development should be carried out. In identifying priorities within the scope of the applied research activities, the emphasis must be placed on problem solution. One of these subjects is the unambiguous, crystal-clear interpretation of the sustainable and integrated European rural development policy, tailored to meet the needs of the people living in rural areas and

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to be in line with the practical requirements, as well as the translation and adaptation of the principles and rules into the theory and practice of the Hungarian agricultural policy. Another issue is to lay the scientific foundation of the decentralised rural development policy, by facilitating local innovation and disseminating special regional development skills and expertise (“bottom-up” approach in planning, project oriented way of thinking, capability to build “creating links”, creative project development based on community involvement, etc.)

A number of remarkable studies have been published in the international literature on regional innovation and rural development, that are quite instructive and could be useful in Hungary in drawing up region-specific rural development concepts oriented towards local needs. One of these lessons to be learnt is that the preparation of case studies demonstrating “best practice” of farming plays a crucial role in accumulating and disseminating knowledge and expertise in the field of local development. In support of this statement an example of an integrated agricultural, i.e. rural enterprise is presented in this article. Another important conclusion is that leaders and professionals of rural development should be capable to recognise opportunities being derived from proper understanding the subsidiary principle. In order to help the “bottom-up” development process the following key points should be identified and emphasized:

- “a diffused development culture which can make local actors responsible for the mobilization of local and external resources;
- a diffused culture of problem solving and project planning, which can strengthen the orientation of local actors towards solving common economic and social problems more than attracting public financial resources;
- a partnership culture, necessary to reach critical mass in local initiatives and to mobilize complementary competencies which are crucial to solve complex and common problems.....”(Garofoli, G., 2002)

The case study is based on the review and research study of a vertically and horizontally integrated best practice eco-farming business. The role and importance of agricultural sector is well under the national average in this region either considering the contribution to the GDP or the employment share.

The owner and general manager of the farm, originally a constructing entrepreneur was born from a farmer family. In 1999 he, as an inhabitant of Budapest, decided to invest his saved capital in establishing an organic farm business. This decision was based on a strong determination to change his family life style as well as his commitment to the environment friendly farming. He bought a parcel of 10 hectares in a village, 55 km distance northeast from Budapest at a low price. He himself designed and managed a project for cleaning and constructing his new plot utilizing solely natural materials (wood, reeds, adobe, dolomite rubble etc.) available nearby in the countryside. Recently he has 150-hectare land (owned and rented). The crop production is concentrated to grow animal feed (maize, wheat, oats, rye, peas, Alfa - Alfa etc). The animal husbandry is based on varieties of native Hungarian breeding stock, which are very favourable for producing good quality bio-food products. The

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recent farm products are different high quality organic dairy products (fresh milk, cheese, yoghurt, curds etc.), and pork products (bacon, sausage, ham, smoked chops etc). The farm can provide agro-tourism services (drink bar, cellar restaurant, and horse riding, guided tours, training etc.). In relatively short time the farm became a “best practice” demonstration farm received relevant production awards (domestic “young farmers grant”, “Royal Dutch Award”).

As part of the case study, having been carried out with the purpose of developing a multimedia-training tool, a **SWOT analysis** (Table 5) and the **mission statement** of the organic farm has also been formulated. These can be actually used by the owner and the top management group, too. According to the mission statement the farm business is based on organic crop production and pasture management technologies, which ensure the sustainable utilisation of natural resources, and which make the cheaper production of animal feed possible on the soil of low fertility.

Table 5: SWOT analyses of the case study farm

<p>Strengths</p> <ul style="list-style-type: none"> - Native domestic breeds as a base for high quality local eco-products - Relatively low production cost - Competence and cooperation level of top management „team” - Integration of farm and food processing activities as the basic source of value add (product development, local innovation etc.) - Multifunctional farm and rural business activities (e.g. agro-tourism, eco-tourism, equestrian tourism, training of eco-farming practice etc.) 	<p>Weaknesses</p> <ul style="list-style-type: none"> - Lack of standard, stabilized network of customers - Insufficient level of safety in marketing and sales - Lack of hotel accommodation for increasing the number of tourists - Low-level infrastructure (roads, marketing networks, regional marketing etc.) - Limited time and knowledge capacity for generating development projects and project finance based on community grants
<p>Opportunities</p> <ul style="list-style-type: none"> - Broadening eco-product market in EU - Local unemployment - Extending local partnership and co-operation - New sources for project financing (EU Structural Fund) - Membership in a LAG (LEADER), further participation in local innovation 	<p>Threats</p> <ul style="list-style-type: none"> - Uncertainties in national agricultural policy - Increasing competition in the organic product market in EU - Slow development of domestic market of organic products (recently 20 %) - Slow development of rural economy and infrastructure

Source: Vörös, M. 2005.

Through the integration of plant production and animal husbandry (native Hungarian species of milk cattle, pig and poultry) the primary orientation of the farm is the production of high quality agricultural raw materials with the qualification “organic product”, and (internal and external) food processing based on these raw materials. On the basis of controlled organic farming and food processing technologies, the farm is capable of producing and selling high quality organic dairy products and organic meat products meeting the consumers’ demands.

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Complementary to these activities are the rapidly developing various services offered by the farm in rural tourism (agro-tourism, eco-tourism, equestrian tourism, etc.). The farm is functioning also as a demonstration farm suitable for the promotion and dissemination of sustainable agricultural and food processing technologies, and it also serves as a training facility for practical training of eco-farming. The objective in the longer term is to further widen the horizontal and vertical integration by establishing accommodation facilities, developing and introducing to the market new services in the fields of tourism and sustainable rural development and agro-environmental training. By disseminating the knowledge of advanced organic farming and food processing technologies the integrated farm represents an important driving force in local innovation and is able to contribute to further improving local employment.

Conclusions, recommendations

Taking the new European rural development principles as our starting point of consideration it is clear that the agricultural sector (either in the narrower, or the broader sense of the term) is a far more important sector of the national economy, than the size of its contribution to the GDP. In order to come up with the correct interpretation of rural development policy, agriculture must be placed in a broader context that takes into account the protection of the rural environment, the quality of raw materials and food produced there, as well as the issue whether rural areas are capable of attracting young farmers and new inhabitants with the intention to settle. Agriculture and food production is a **multifunctional, organic system**, within which production is not the only factor, but the protection of the natural environment, the capability of the region to keep the population in place, the preservation, maintenance and development of local values (the utilisation of ecological, cultural and historical endowments, the production of healthy food, the employment of the people living there, the improvement of the quality of rural life, etc.) are all factors playing an almost equally important role as production itself. The structurally modernised new agricultural sector, even if it cannot be considered as the “cutting edge” of national economy, it is, by all means, a **vital sector with a stabilising effect** from the point of view of creating and maintaining socio-economic balance.

One of the main reasons for the declining economic position of rural areas is the **decline in the performance of the agricultural sector, the measurable regression in terms of both the absolute and relative values of its added value content** over the last one and a half decades. Rural areas are undoubtedly the major losers of the political changes in Hungary. The most serious problems of the rural economy and society are unemployment, economic inactivity, poor infrastructure, as well as poverty. Unemployment is considerably higher in villages, than in towns. One of the consequences of the high unemployment rate in rural areas is the outward migration of the population and the spread of the so-called forced enterprises. **Economic development projects** – based on purposeful local strategies that are coordinated on the regional and local level, and aimed at **facilitating the creation of new jobs** – must be prepared and implemented by making the most of the potential financial resources offered by the EU. **Local and regional innovation** must be enhanced. From the point of view of the future of rural settlements it is of essential importance to keep the population in place so that the capacity of human resources of rural areas, and

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local expertise could develop. Through the exploitation of both the expanding opportunities offered by Structural Funds schemes and local resources, the declining age composition of agricultural entrepreneurs must be improved, the vocational training of farmers and rural entrepreneurs must be developed and widened by adopting new training tools and methods. In order to create more attractive and more comfortable conditions in rural areas, to enhance rural environment and to improve the quality of life, and the environment in the villages and towns, infrastructure and basic services must be developed.

In the spirit of the new European rural development policy, the encouragement of local initiatives based on partnership, the coordination of local initiatives into regional programmes, and the support provided for the already started regional self-help organisations are all elements of increasing importance. To restore public trust, to enhance the political weight of local democracy, and to improve the ideological and professional training in rural communities are processes that will require a longer period of time. The actual **dissemination of the LEADER methodology in practice**, raising awareness, developing an expertise using the “bottom-up”, “project oriented” and fund raising approach will represent an incredibly difficult task in terms of training.

The model of the integrated enterprise based on organic farming, one example of which is the case study presented in the article, is characterised by a dynamic business orientation aimed at the maximum exploitation of the present and future business- and rural development opportunities, this being an approach that can serve as the basis for both the further widening of the scope and identifying new ideas of local and regional innovation, and also for the rapid dissemination of the results. The business strategy of the integrated farm business builds upon the prospectively favourable opportunities offered by the economic and legal climate undergoing a major transformation due to our EU accession, but it also takes threats into consideration. The case study presented in the article is to be regarded as unique under the circumstances in Hungary, from the point of view of the “best practice” it sets an example that could be worth following, not only for the farmers of the new Member States, and the accession countries in Central-Eastern Europe, but also those of the old Member States.

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