

THE CONTRADICTIONARY ROLE OF LOCAL NON-GOVERNMENTAL ORGANISATIONS IN RURAL DEVELOPMENT - A HUNGARIAN CASE STUDY

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Abstract

The present paper attempts to carry out the assessment of the objectives and targeted activities of non-profit NGOs in Hungary, in relation to funding available for them from state funds through an application procedure. The analysis is based on a call for applications for funding announced in 1998 in Hungary, which offered 5000 Million HuFt (approx 20 million Euro at the approximate exchange rate of 1 Euro = 250 HuFt at the time) for various activities promoting rural welfare. Applications are analysed according to the targeted groups, targeted activities, required amounts of funding, in comparison to the local characteristics of the areas the NGOs are working. The aim was to identify the main motivating factors of the NGOs in deciding the line of action they intend to pursue.

1. Introduction

Rural areas often suffer from unfavourable opportunities for development, including low employment rates, low income generating capacity, unfavourable demographic characteristics, and a series of traits which makes it difficult to maintain a living standard comparable to that of prospering cities. A key element in this situation is the fact that the traditional income generating activity, namely agriculture is losing its share in the GDP of developed countries (*Tracy, 1993*).

While rural population cannot be expected to decrease at a similar speed without the undesirable deterioration of rural environment and the aggravation of urbanisation problems the improvement of the income generating capacity of the countryside is a serious concern of governments. This holds true for Hungary, where the general crisis is aggravated by the adverse effects of the transition to market economy, particularly serious in the agricultural sector (*Csöste and Kovách, 1997*). In this situation rural development deserves utmost attention and the utilisation of the limited funding available for the purpose requires the greatest care possible.

Besides rural population and public administration another key group of actors is present in the rural development framework, namely the local non-profit oriented non-governmental organisations (NGOs), such as associations and foundations aiming at helping rural communities in improving their quality of life (*Borzaga, 1998; Böhm, 1993*).

The present paper attempts to carry out the assessment of the objectives and targeted activities of such non-profit NGOs in Hungary, in relation to funding available for them through applications for state funds. The analysis is based on a call for applications for funding announced in 1998 in Hungary, which offered 5000 Million HuFt for each winner (approximately 20 million Euro at the exchange rate of 1 Euro = 250 Hungarian Forints in 1998) to carry out various activities promoting rural welfare. Altogether 200 applications were submitted throughout Hungary, of which a sample of 59 applications (30 % of the total) were randomly selected for analysis. Applications were analysed by the targeted groups,

targeted activities, required amounts of funding. The main features of the applications were compared to the local characteristics of the areas where the applicant NGOs are working. The aim was to identify the main motivating factors for the NGOs to decide about the line of action they intend to pursue.

The paper is structured as follows: in Section 2 the general characteristics of Hungary are briefly summarised pointing out the main distinguishing factors of the counties and regions considering the quality of life. The gravest problems of the countryside are pointed out, and the possible role of the NGOs is outlined.

Section 3 describes the database used for the present study, and introduces the main questions of interest which the analysis attempts to answer. Section 4 describes the main results and findings of the analysis. Section 5 explains and discusses the meaning of these findings, and tries to draw some meaningful conclusions and points out further research directions.

2. General regional characteristics of Hungary - a brief overview

Hungary is located in East-Central Europe at the Eastern border of the European Union. Since the beginning of the nineties serious progress has been made towards the establishment of market economy, the results of which have been acknowledged in the successive country reports prepared by the EU Commission (*Amato and Batt, 1999*). Despite the impressive development of the past decade the average living standard is only a fraction of that of the EU average. This average is made up of large differences between regions. Hungary is made up of 19 counties, with the following general features (*KSH, 1998*):

Table 1: Basic statistical data on counties of Hungary, 1998

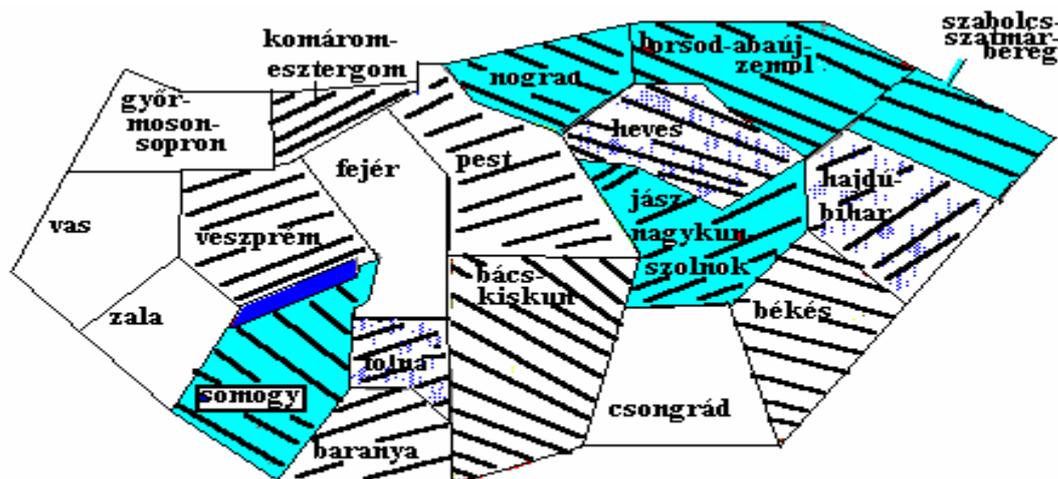
| County name | GDP per head, % of mean | Area, % of Hungary total | Population, % of Hungary total | Unemployment rate, % |
|------------------------|-------------------------|------------------------------|--------------------------------|----------------------|
| Bács-Kiskun | 73.6 | 9.1 | 5.3 | 7.8 |
| Baranya | 80 | 4.8 | 4.0 | 8.5 |
| Békés | 71.8 | 6.1 | 3.9 | 8.1 |
| Borsod-Abaúj-Zemplén | 69.9 | 7.8 | 7.3 | 13.8 |
| Csongrád | 88.1 | 4.6 | 4.2 | 5.4 |
| Fejér | 116.7 | 4.7 | 4.2 | 7.1 |
| Győr-Moson-Sopron | 109.5 | 4.4 | 4.2 | 5.1 |
| Hajdú-Bihar | 75.9 | 6.7 | 5.4 | 9.7 |
| Heves | 71.9 | 3.9 | 3.2 | 9.7 |
| Jász-Nagykun-Szolnok | 75.6 | 6.0 | 4.1 | 11.8 |
| Komárom-Esztergom | 83.9 | 2.4 | 3.1 | 6.5 |
| Nógrád | 50 | 2.7 | 2.2 | 10.8 |
| Pest | 76.2 | 6.9 | 10.1 | 5.9 |
| Somogy | 69.7 | 6.5 | 3.3 | 10.3 |
| Szabolcs-Szatmár-Bereg | 57.9 | 6.4 | 5.7 | 11.8 |
| Tolna | 83.3 | 4.0 | 2.4 | 9.5 |
| Vas | 111.1 | 3.6 | 2.7 | 5.5 |
| Veszprém | 81.1 | 5.0 | 3.7 | 6.4 |
| Zala | 93.1 | 4.1 | 2.9 | 7.9 |
| Hungary (1998) | 3988 Euro | 93 000 km² | 2,1 million | 7,8 |

As the above figures show there are large differences among the counties. There are areas in development stages much worse than the country average while others may boast of outstanding figures. 18 % of the inhabitants live in counties where the average income is less than 70 % of the country average, and a further 12 % where the per capita GDP is between 70 and 75 % of the average. At the same time 10.7 % of the population lives in counties with GDP above 105% of the country average. A regional pattern may be identified: the most developed areas are those in the vicinity of Budapest the capital (Fejér), and counties near the Austrian border (Vas, Győr-Sopron), while the areas of the derelict industrial North East (Nógrád, Borsod), and the remote agricultural territories of the South and the East (Szabolcs, Jász-Nagykun-Szolnok, Somogy) suffer from grave problems (Enyedi, 1993).

Figure 1: Counties of Hungary

Notation: white: unemployment rate below 9%, dotted: unemployment rate between 9 and 10%, grey: unemployment rate above 10%; dark blue: Lake Balaton.

\\: GDP below 75% of country average, ///: GDP between 75 and 85 % of country average.



The main causes for the lack of development are the lack of infrastructure (roads, communication channels, services), unfavourable settlement structure (tiny villages of low population, with no market opportunities), unfavourable patterns of schooling and qualifications (low level of education in the high tech areas - IT, business skills, languages), lack of capital, difficulties and high entrance costs of starting a business.

Rural communities lost the main traditional income source. Agriculture, which used to be the greatest employer lost its importance in the national economy, and currently cannot provide income for the majority of the rural population. The big issue of market economy in the countryside is to find the product, for which there is sufficient market demand to generate sufficient income for rural families (Phelan, 1994). Traditional agriculture is no longer capable of offering this suitable product. Industrial production requires capital resources which are not easily available. The service sector could develop only if it can also identify its own client with a fat purse to pay for the service offered. Such clients may be e.g. the inhabitants of developed regions coming to find recreation opportunities enjoying the unspoilt beauty of the countryside, that is, clients of rural tourism, but hopefully there are other prospective services for clients, too. Besides, the development of the service sector in rural settlements necessitates investments, trained or qualified employees and infrastructure. Now this again requires financial resources, which might be provided by a private investor hoping for risky profits, or the state, who intends to act according to its welfare state image with the

commitment to strengthen the positions of the rural communities. However, government funding - in accordance with the democratic principle of transparency - should not be handed over to a few selected investors chosen freely by government officials, but made available through rigorous tendering procedures where applications are compared and assessed against each other.

The state may offer funding to private businesses working for profit, to local bodies of public administration, or to private nonprofit organisations, depending on its aims.

Local nonprofit organisations seem to be the best choice, if the aim is to act according to local needs without unnecessary state involvement, or where the public administration does not have the relevant organisational structure to fulfill the tasks itself, and when transparency is an important requirement of the civil society (*Pálné Kovács, 1993; Borzaga, 1998*).

However, the questions still remains whether successful applicants are really those who can address most efficiently the real needs of the community which they are expected to answer. Is the application procedure really tailored to answer the true needs of the rural communities, or may applicants have hidden agendas which they manage to pursue and achieve within the set framework? Is there a danger of organisations working in order to ensure the survival of the problem itself for the elimination of which they have been created, in order to justify their need for further funding?

3. The database and the methods of assessment

The analysis is based on a call for applications for funding announced in 1998 in Hungary, with the submission deadline 31 January 1999. The successful applicants were offered not more than 5 Million HuFt for each (approximately 20 thousand Euro at the exchange rate of 1 Euro = 250 HuFt in 1998) to carry out various activities aimed at promoting rural welfare. Altogether 200 applications were submitted throughout Hungary, of which a sample of 59 applications (30 % of the total) were randomly selected for the present analysis.

Eligible applicants were civil associations or foundations, working on a non-profit oriented basis, whose activities were somehow related to rural development. Applicants were asked to outline their general area of activity, the targeted group and the planned activities for which they request funding, the expected outcome of the planned activities, the funding applied for - broken down to General Overhead Costs (office maintenance, phone, postal and fax costs, rental of office and equipment), Staff Costs (only staff working for the program), Direct Program Costs (materials, contracts, travel and transport costs, printing and copying, marketing and advertising, rentals, etc), and Investment Costs (infrastructural improvements, purchase of equipment, such as computers, photocopiers, faxes, printers, etc.). Applicants were asked to provide their own contribution of at least 10 % of the total funding applied for, and they were also asked to give the yearly income of the organisation without the funding.

The analysis of the applications was focused on the following questions:

1. Are applications related to the local features of the regions where the applicants are located?
2. Do the applied programs focus mainly on the needs of the area, or on the interests of the organisations themselves?
3. Do the applications reflect the territorial discrepancies formerly seen in general statistical data?
4. Are the proposed activities in line with the development needs of the rural communities?

The present paper ignores the actual results of the application procedure, and does not rely on which of the applications received funding and how much. As the evaluation process of the applications always involves political decision making the success or failure of an application

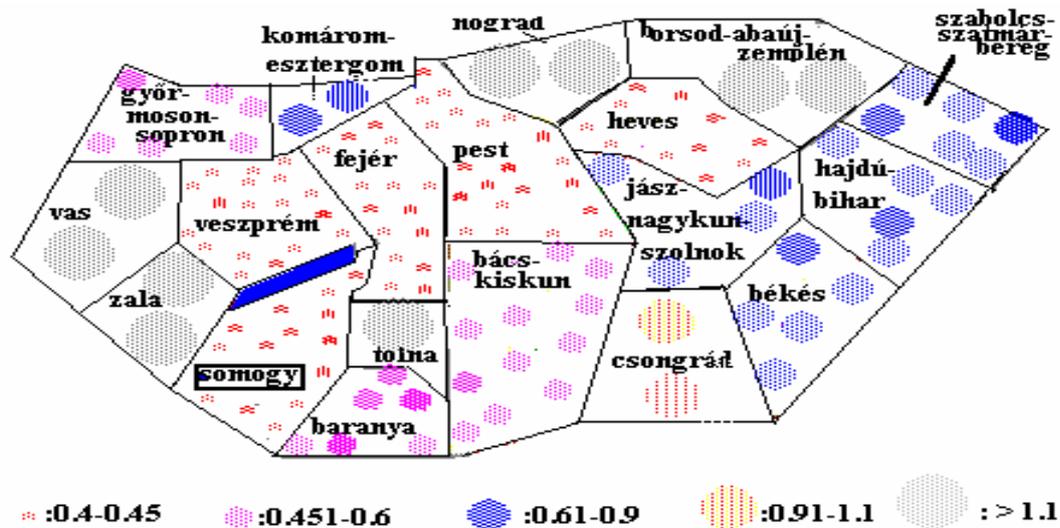
may depend on preferences of the public administration as well as on the civil society for which it intends to provide help. The involvement of the policy makers thus adds to the already complex picture, and could be the topic of a continuation of the present study.

4. Main findings of the analysis

a. The territorial distribution of the number of submitted applications

The number of applications per 100000 inhabitants was computed for all the 19 counties of Hungary. The country average value was found to be 5.9, while county-wise indicators were grouped into the following categories, as shown in figure 2:

Figure 2: Territorial distribution of submitted applications.



When this figure is compared to the distribution of the area, population, or GDP per head of the counties, it is clearly visible that there is no strong connection between the number of applications and any of the above indicators. It cannot be said that the economically more developed regions are less represented, as they are not so much in need of financial aid (see e.g. Vas, Zala as counterexamples) though for some it is true (Fejér, Győr). At the same time there are counties very much in need of support (e.g. Borsod, Nógrád) which are represented by a high proportion of applications, and some which are badly underrepresented (Somogy). There is a weak negative linear relationship between the number of applications submitted and the unemployment rate of the county ($r^2=0.25$), but the other relationships show an even weaker correlation.

The reason for this seemingly confusing result may be the double effect of need and capability. Counties most in need of help often lack the resources even to apply, thus they may be underrepresented in spite of the justification of their requests. At the same time relatively developed counties still have a lot of space for improving their rural situation, while they do have the sufficient resources and expertise to set up a good application, and possibly gain support.

b. Own resources and annual revenues

A further factor in this direction may be the own resources requirement. The poorest counties may find it difficult to provide the 10 % own resources even if the proposed activities could be sufficiently carried out entirely from the granted funding. Thus their application intentions

often have to be cut back according to the limited resources they already own, which may further deepen the gap between counties at different development stages.

Note that 59 % of all applications can raise own resources less than 800 thousand HuFt, while 17 % of them can raise resources above 2000 thousand.

Figure 3: Distribution of own resources (thousand HuFt)
county averages, total average: 1106.4 (thousand HuFt per applicant)

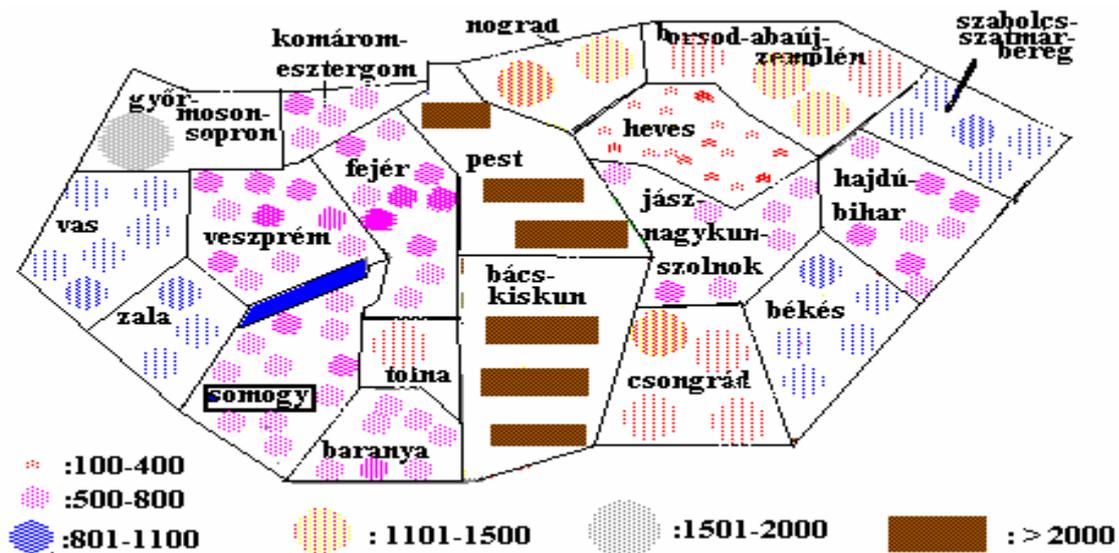
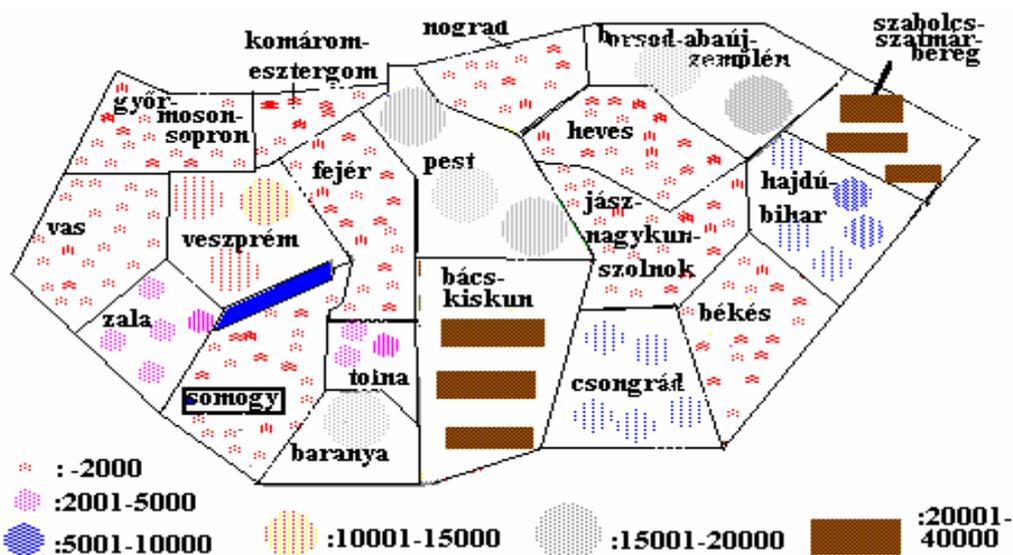


Figure 4: Distribution of yearly revenues (thousand HuFt)
county averages, total average: 9752 (thousand HuFt per applicant)



A large proportion (40 %) of the applicants are low budget organisations with the average yearly revenues below 2 million HuFt, while a further 30 % is below 5 million HuFt. The high country average is due to one "rich" applicant in one of the poorest counties (Szabolcs) with annual revenue of 40 million HuFt.

This again shows large differences between applicants. It is sometimes surprising to see that the own resources capability is just opposite to the level of annual revenues (see e.g. Szabolcs, Baranya), though the general pattern shows agreement between the two.

c. Amounts applied for

In spite of the widely differing own resources and annual revenue data of the applications the requested funding shows great consensus among the applicants. The majority (56 %) of the applicants asked for the maximum possible amount, or just below (4900 thousand HuFt or above). The lowest amounts applied for are 3150 thousand HuFt in county Szabolcs, and 3210 in county Heves, while 6 other applications fall between 3500 and 4000 thousand HuFt. In these situations the applied amounts seem to be limited by the own resources (and the annual revenue) of the applicant organisation.

The conclusion may be drawn that the access to, and utilisation of, resources available through application procedures are seriously influenced by the capital resources of the organisations eligible to apply. The general tendency is to apply for the maximum possible amount available, if the own resources requirement can be fulfilled. This means that it is not the task that defines the budget, but the offered money determines the tasks to be completed. This may be an upside down approach, but as low budget organisations cannot afford to lose available funding they are compelled to break down their larger programs to smaller separate pieces.

d. The financial structure of the applications

Applications had to be broken down to the following four groups:

1. General Overhead Costs (office maintenance, phone, postal, fax costs, rental costs),
2. Staff Costs (only staff working for the program),
3. Direct Program Costs (materials, contracts, travel and transport costs, printing and copying, marketing and advertising, rentals, etc), and
4. Investment Costs (infrastructural improvements, purchase of equipment, such as computers, photocopiers, faxes, printers, etc.).

The total amount applied for was 277.1 million HuFt (approx. 1.1 million Euro), of which 37 % was requested for investments, 34 % for direct program costs, 20% for staff costs, and 9% for general overhead costs. 21 % of the applicants did not request staff costs, 18 % did not request general overhead costs, 10.2% did not request investment costs, and surprisingly, 6.8 % did not request direct program costs! Otherwise applications widely varied by their financial structures.

The overview of the investment costs indicates that applicants invest in equipment of general use, which is necessary for maintaining and running a modern office. Within the framework of the applications they try to equip their organisations with the most needed equipment and tailor the program to justify the spending. This may seem to be an entirely selfish motive, but in the long run the rural community can benefit more from the operations of a well equipped and well prepared organisation than from one that lacks the necessary infrastructure. The situation is somewhat similar to the original capital accumulation process, and after this accumulation strong and resourceful organisations may be established who are capable of working efficiently for increasing rural welfare.

e. Target groups and target activities

The typical *target groups* are the following (percentages show the proportion of applications with the target group listed):

- Local inhabitants (LI): 79.8 % of the applicants indicated this group as its target.

- Local unemployed (LUE): 26.3 % (however, there is no connection to the unemployment rates of the areas! This target group occurs in counties with low unemployment rates, but there are no applications aimed at this target group in county Jász where the unemployment rate is 11.8% or in Somogy, where it is 10.8%)
- Tourists (T): 25 % of applications (partly in counties which are already favoured by tourists, partly in counties where it is still to be desired)
- Agricultural population (AG): 14.8 %, it occurs only in counties where local unemployed (LUE) are an additional specific target.
- Roma minority (R): 3.4 %, only in counties Borsod (40 % of county applications) and Hajdú-Bihar (25 % of county applications).
- Local entrepreneurs (LE): only in county Zala, and the occurrence is 40% there, which means 2.1 % for the whole country.

The *planned activities* are the following (percentages show the proportion of applications with the activity listed):

1. Training (TR): 47 %
2. Demonstrations, exhibitions, presentations (DEP): 35 %
3. Tourism development (TU): 34%
4. Publications (P): 31%
5. Community development (CD): 21.6 %
6. Enterprise development (ED): 20.4 %
7. Job creation (JC): 12.3 %
8. Environmental conservation (EC): 7.8 %
9. Telehouses, Village Centers (TVC): 7.4%
10. Care for traditions, buildings, crafts,..(CTB): 4.3 %

Table 2 lists the proportion of applications in which a particular target group and a particular target activity was mentioned together, for activity categories and target group categories having more than 10 % of applications, as percentages of all the 59 applications.

Table 2: Frequencies of applications mentioning a particular target group and a particular target activity together

| Target activities | Target groups | | | |
|-------------------|---------------|-----|-------|------|
| | LI % | T % | LUE % | AG % |
| P % | 20 | 10 | 5 | 2 |
| DEP % | 25 | 10 | 8 | 5 |
| TR % | 41 | 7 | 20 | 12 |
| CD % | 22 | 2 | 7 | 5 |
| JC % | 7 | 0.0 | 10 | 3 |
| ED % | 10 | 0.0 | 14 | 10 |
| TU % | 24 | 12 | 0.0 | 3 |

It can be seen that most of the P and DEP activities (publications, and exhibitions, demonstrations, presentations) are aimed at local inhabitants and tourists. Training programmes are also aimed at local people, and especially at the unemployed, and the agricultural population. Job creation naturally focuses on the unemployed, while enterprise development focuses on both the unemployed and the agricultural population, probably to help them start or develop a new or a more profitable business. Tourism related activities focus partly on tourists themselves, but there are several programs which are aimed at the

local population, to help them set up a business which may serve the future tourist coming to the region.

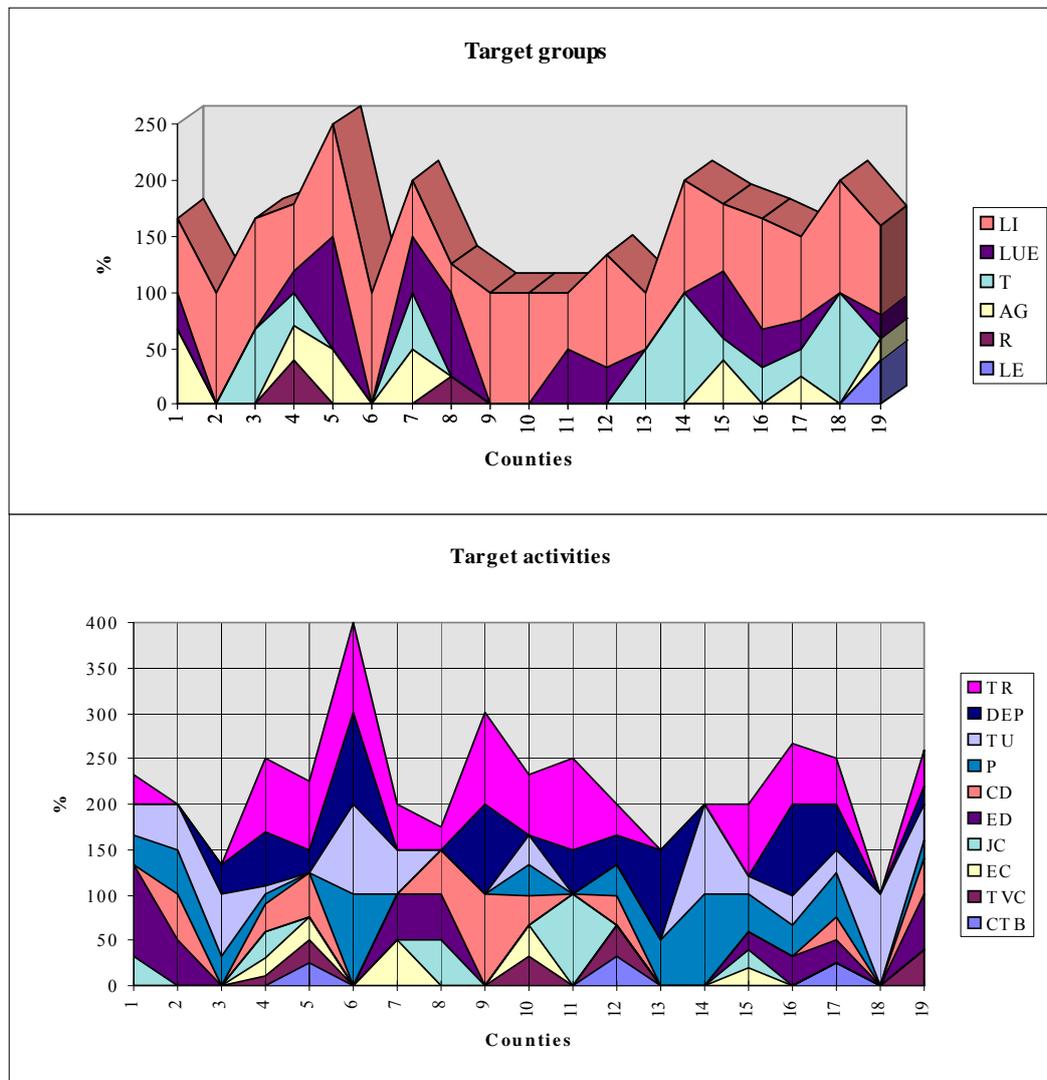
There is a geographical variation in the target groups and planned activities (see figure 5).

As far as target groups are concerned, there are projects in all the counties that focus on local inhabitants. However, 10 of the counties do not have any project aimed at tourists, and another 8 counties do not have any projects focusing on the unemployed. Agricultural population is targeted only together with the unemployed, while roma population is focused at only in 2 counties. This does not seem to be in agreement with the regional statistical data.

As far as activities are concerned, again large variations are seen. There are counties where only one activity is offered (county Veszprém - tourism development), or two activities (county Komárom - exhibitions and training, county Pest - publications and exhibitions, county Somogy -publications and tourism development), the other counties vary to a great extent, offering at least three activities of the six categories.

Figure 5: Target groups and target activities by countries

Notation: 1-Bács-Kiskun; 2-Baranya; 3-Békés; 4-Borsod-Abaúj-Zemplén; 5-Csongrád; 6-Fejér; 7-Győr-Moson-Sopron; 8-Hajdú-Bihar; 9-Heves; 10-Jász-Nagykun-Szolnok; 11-Komárom-Esztergom; 12-Nógrád; 13-Pest; 14-Somogy; 15-Szabolcs-Szatmár-Bereg; 16-Tolna; 17-Vas; 18-Veszprém; 19-Zala



Conclusions

A key problem for rural development is to enhance the capabilities of rural communities to generate reasonable income from non-agricultural activities. The development of the service sector in rural settlements necessitates investments, trained or qualified employees and infrastructure. Various resources may offer funding for these purposes, and local nonprofit organisations may play a crucial role in utilising funding for the benefit of the community.

While applying for funding applicant organisations struggle with multiple objectives: answering efficiently the real needs of the community is often in contrast with the capacities of the organisation itself. Rural communities most in need of help often lack the resources even to apply, thus they may be underrepresented in spite of the justification of their requests. Access to and utilisation of resources available through application procedures are seriously influenced by the capital resources of the organisations eligible to apply. The general tendency is to apply for the maximum possible amount available, if the own resources requirement can be fulfilled. This means that it is not the task that defines the budget, but the offered money determines the tasks to be completed. This may be an upside down approach, but as low budget organisations cannot afford to lose available funding they are compelled to break down their larger programs to smaller separate pieces. Often it is the availability of funding for which an organisation can apply that initiates the establishment of the civil organisation itself. This may explain the finding, that often no application is targeted on groups most in need of support in a particular area, as no organisation exists in the area who intends to represent their interests.

The low upper limit on funding provided cannot facilitate the design of a larger scale project, so efforts become fragmented. The overview of the investment costs indicates that applicants invest in equipment of general use, which is necessary for maintaining and running a modern office. Within the framework of the applications they try to equip their organisations with the most needed equipment and tailor the program to justify the spending

The present study revealed a wide variability among the applicants regarding their capacities, financial situation, area of activity, targets and aims. While there are large differences among the counties they work there are no general patterns of either the target activities or the financial background to correspond to these geographical differences. This indicates that in spite of the generally accepted notion of an East to West stratification in Hungary all counties have their rich and poor communities and settlement.

In view of the future of Hungary civil non-governmental organisations have an increasing significance. This is in line with the EUs concepts of structural and social policy targeted to the development of rural areas. As Hungary seriously hopes to enter the union within the next decade civil organisations will have to be strengthened. A solution may be found only through the cooperation of governmental, non-governmental and scientific and educational institutions.

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