



Summary
of the Audit on the Utilisation of Funds used for the
Convergence of Regions (1125)

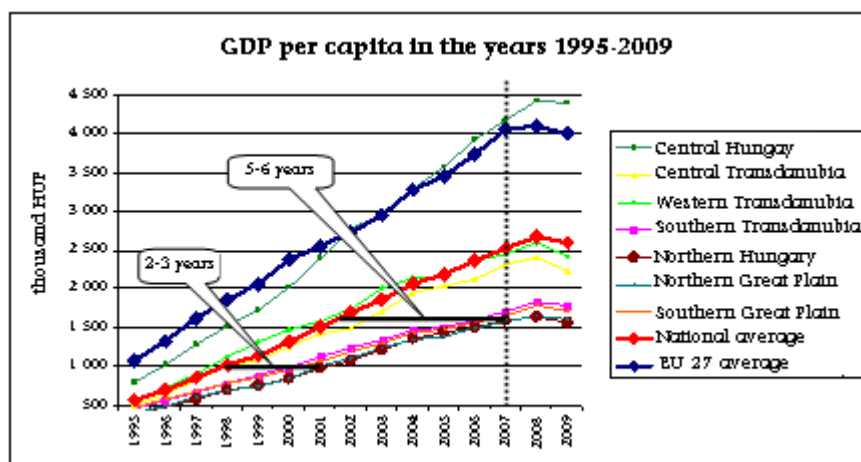
Objectives and scope of the audit

In 1996 the National Assembly indicated the reduction of considerable differences between the developed regions, settlements and those lagging behind as a priority objective within the Act on Regional Development and Land Use Planning (regional development act). Therefore, the promotion of backward regions' convergence and development was made a priority task and the criteria for the classification of beneficiary regions were set. With the accession to the European Union, EU funds provided an opportunity greater than ever for convergence and for the improvement of competitiveness. Within the framework of the New Hungary Development Plan altogether HUF 760.9 billion was awarded to 94 depressed micro-regions until April 2011. From 2008, a complex development programme targeting the 33 most depressed micro-regions was started with a separated fund of HUF 96.9 billion.

The objective of the audit was to evaluate, whether the decisions made centrally and locally, as well as the regulation system and the grant scheme contributed to the convergence of regions effectively. The audit covered the period 2005-2010, on-site visits were paid to the Ministry of National Development, the Ministry of the Interior, the National Development Agency, 35 local governments and 9 multi-purpose micro-regional associations.

Main findings

The decisions made centrally and locally aiming at the convergence of regions, as well as the regulation system and the grant scheme did not contribute to the implementation of the objectives set. In terms of the GDP per capita in purchasing power standard (PPS), the gaps between the regions deepened, partial results could be revealed in the field of infrastructural developments.



Depressed regions had not been clearly marked off by the value-generating capacity, infrastructural development and social indicators of the economy. Target positions to be achieved in order to implement regional convergence aimed by the National Assembly were not specified, neither were the tasks to be accomplished in order to achieve the objectives, or the indicators appropriate for assessment.

In spite of legal stipulations, the National Assembly did not adopt overall regulations regarding the tools and the institutional system serving as a basis for the implementation of regional development objectives. There is no comprehensive specification of legal, planning, regulation, monitoring or other economic means serving directly or indirectly the implementation of regional development objectives. In the regional development act EU funds were not indicated amongst financial instruments, and the legal regulation was not complete in terms of domestic resources, either. In spite of the corresponding legal stipulation, aspects of continuous coordination between the ministers were not regulated by the Government. Resources were not coordinated. The institutional system of regional development and its position within the governmental structure were affected by a number of changes hindering transparency.

There was no monitoring system endorsing the regional approach set up that had been stipulated for in order to improve the efficiency and transparency of development policy. The government decree on regional monitoring adopted in 2010 with a 10-year delay is incomplete, as it does not contain the tasks, tools and procedural rules necessary to achieve the objectives of such a monitoring system and the instructions regarding the operation thereof, either.

The deficiencies of the reporting system hindered the quick and efficient intervention of decision-makers. Despite the stipulations of the regional

development act, the National Assembly did not make the Government report on the utilisation of regional development funds, the assessment due in 2009 had not yet been discussed by the National Assembly. Due to the impact analyses and reports prepared 2-3 years after the assistance programmes, there is a high risk that decision-makers obtain information with such a delay that will not facilitate substantiating the convergence objectives.

The effective implementation of the complex regional development programme launched in 2008 and covering 33 micro-regions was hindered by the complexity and inflexibility of the existing procedural rules, the planned and actual resource allocation, the decision-making mechanisms and the institutional system set up for the implementation. When launching the programme, general objectives were specified, but no indicators were determined at programme level. Upon the division of resources to be allocated for micro-regions, the development disparities expressed by complex indicators consisting of 31 partial indicators and serving as a basis for regional classification, were not taken into account. The 33 micro-regions to be assisted by the complex programme are below the national average mainly in terms of social indicators. In spite of that, subsidies were aimed mostly at the improvement of infrastructural circumstances of life conditions and the availability of public services in line with the medium-term objectives of the National Regional Development Concept.

Legislative conditions were established for the compilation of the micro-regional programme packages, but the specific conditions of implementation had not yet been elaborated in the planning period. Grant schemes were subsequently inserted in the general procedural rules of the New Hungary Development Plan, thus the special convergence objectives and procedural rules had to be adjusted to the operational programmes already running for several years. In the planning phase of the complex regional development programme targeting the most depressed micro-regions, the tight deadlines were regularly modified. However, there was not sufficient time for assessing the situation of micro-regions and for compiling substantiated programme packages.

Out of the HUF 96.9 billion allocated for the complex regional development programme, the targeted 33 micro-regions can utilise maximum HUF 67.1 billion even in case the tenders – which have not yet been launched – are fully approved. The remaining HUF 29.8 billion cannot be utilised in the present procedure, as no projects were listed for this resource and the rules for the management of the resources remaining in the tender phase have not been elaborated. Only the register prepared during the on-site audit provided information on the specific actor of the tendering system due to whom the amount appropriated for micro-regions could not be utilised. The allocation of HUF 46.4 billion approved by the end of the first quarter of 2011 had been

distributed between the micro-regions rather unevenly; consequently the utilisation thereof was uneven, too. The ratio of actually granted subsidies in proportion of those preliminarily approved was the lowest in the Bácsalmás micro-region (11.5%) and the highest in the Bátorlyerénye micro-region (81%).

Between 2007 and 2010 the Social Renewal Operational Programme and the Economic Development Operational Programme (EDOP) did support the depressed and most depressed micro-regions also in a targeted way. This meant that a total allocation of HUF 67 billion was open for tendering. The EDOP programmes aiming at the development of business associations complied with the general regional development objectives specified in the regional development act. However, – in spite of the low number of enterprises operating in the most depressed micro-regions – the calls for proposal did not expressly favour start-up enterprises.

Overall, the programmes aiming at the convergence of depressed micro-regions could contribute to the reduction of regional disparities in the allocation of resources. Economic and social differences had not been reduced in a detectable manner, as a more efficient utilisation of funds and a more coordinated and significant operation of regional development tools – other than the financial ones – would have been necessary for that. The objectives set did not take into account the different potentials of micro-regions, while the system of tools did not prompt to break out from the cluster ‘most depressed’. As a result of developments implemented by means of national and EU funds for convergence purposes by the local governments and micro-regional associations, an improvement can be foreseen in case of three partial indicators (the ratio of flats connected to a public water supply, those with a regular waste collection, and the length of the closed sewage network per one km of plumbing) out of the 31 serving as a basis for regional classification. Due to the developments, the technical and the human infrastructure improved, as well as the inland drainage, the conditions of transportation and the protection of drinking water sources.

Recommendations

SAO recommended the Minister of National Development to prepare the amendment of the Act on Regional Development and Land Use Planning, so that exhaustive rules apply to the tools and institutional system serving the implementation of the objectives. It was also recommended that the aspects and rules of coordination between ministers should be elaborated.

SAO recommended the Minister of Public Administration and Justice to elaborate a differentiated target system in the field of the convergence of regions. According

to our recommendations, such tools are necessary that allow for the achievement of the objectives set and for breaking out from the cluster 'most depressed'. Indicators and measuring tools have to be specified accordingly.

SAO recommended the Minister for National Economy to prepare the report on the enforcement of regional development policy. Moreover, it was recommended for the Minister to revise the indicators serving as a basis for regional development classification of micro-regions and to make a proposal regarding the introduction of such indicators that are appropriate to measure not only the differences in development but also the impacts of the convergence programmes.