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TERRITORIAL DEVELOPMENT POLICY COMMITTEE**

Working Party on Territorial Policy in Rural Areas

**PLACE-BASED POLICIES FOR RURAL DEVELOPMENT
LAKE BALATON, HUNGARY (CASE STUDY)**

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TABLE OF CONTENTS

Introduction.....	4
1. Context.....	6
1.1. Governance framework	6
1.2. Profile of rural areas in Hungary and Lake Balaton.....	19
1.3 Tourism in Hungary and Lake Balaton	26
2. Territorial development policies	44
2.1. National policies	44
2.2. Lake Balaton Strategic Development Programme	52
3. Territorial development policy implementation in Balaton	58
3.1. Required and effective funding	58
3.2. Funding sources and programme allocations	60
3.3 Funding of tourism projects.....	66
3.4. Micro-regions, local initiative and rural tourism in Balaton	70
4. Evaluation and recommendations	75
4.1. Evaluation.....	75
4.2. Recommendations	79
BIBLIOGRAPHY.....	86
WEBSITES.....	89
National websites	89
Regional websites	89
Other sites	90
ACKNOWLEDGEMENTS.....	91

Tables

Table 1.	Functional type based distribution of NGOs in 2002, in the LBPRD.....	18
Table 2.	LBPRD population density, 2002.....	20
Table 3.	Economic sectors by types of municipalities in 2002.....	22
Table 4.	Size of different age groups (% of permanent population), 1997-2002 in LBPRD.....	25
Table 5.	International tourist arrivals in 2002 in Europe	27
Table 6.	Arrivals in Hungary by countries of origin, 2001-2003	27
Table 7.	Accommodation and catering businesses in LBPRD, 2002	32
Table 8.	Sarmellek airport traffic, 1997-2003	33
Table 9.	Guest nights in the LBPRD and in Hungary.....	40
Table 10.	Financial breakdown of funds by Operational Programme	46
Table 11.	Financial allocations to "direct" instruments of regional development policy in Hungary ..	47
Table 12.	Schedule and planned financing of measures of SDP of LBPRD	59
Table 13.	Planned financing sources of the measures of SDP of LBPRD.....	60
Table 14.	Resources of LBDC, 2000-2005.....	61
Table 15.	Effective financing by Objective (million HUF), Strategic Development Programme, 1999-2003	64
Table 16.	Financing by sources (million HUF) of the Strategic Development Programme, 1999-2003	64
Table 17.	Type of tourism projects funded in the Lake Balaton Region.....	68

Figures

Figure 1.	Intergovernmental relations in Hungary	7
Figure 2.	NUTS II regions in Hungary	9
Figure 3.	The Lake Balaton Catchment Area and perimeter of the LBPRD.....	14
Figure 4.	Types of municipalities in the Lake Balaton Recreational Area	15
Figure 5.	Classification of territorial units in Hungary (NUTS IV regions) by OECD typology	20
Figure 6.	Population density by municipalities in 2002.....	21
Figure 7.	Rate of unemployment (% of the active population) by municipalities, 2002.....	23
Figure 8.	Per capita net income of taxpayers in HUF by municipalities, 2002.....	24
Figure 9.	Migration balance as % of permanent municipal population, 2002	26
Figure 10.	Changes in Hungarian guest nights by major source countries, 2002-2003.....	28
Figure 11.	Hungarian guest nights by major source countries in 2003	28
Figure 12.	Guest nights in Hungary by major destinations, 2001-2003.....	29
Figure 13.	Most popular domestic destinations in Hungary, 2003	30
Figure 14.	Guest nights in rural tourism in Hungary, 1998-2002	31
Figure 15.	Balaton Uplands National Park.....	34
Figure 16.	Balaton Wine Regions	35
Figure 17.	Cycling paths around Lake Balaton.....	37
Figure 18.	Guest nights in Balaton region, 2003.....	38
Figure 19.	Changes in terms of lower solvency tourism in Hungary 1997–2001	41
Figure 20.	Changes in terms of higher solvency tourism in Hungary 1997–2001	42
Figure 21.	Changes in terms of lower solvency tourism in Balaton 1997–2001	43
Figure 22.	Changes in terms of higher solvency tourism in Balaton 1997–2001	44
Figure 23.	Balaton tourism policy actors and processes	55
Figure 24.	Spatial analysis of income generation capability of the LBPRD, 2004.....	57
Figure 25.	Sources of development funds in Balaton, 2000-2003	65
Figure 26.	Sectors of development subsidies in Balaton, 2000-2003	65
Figure 27.	Geographic distribution of development funding in Balaton, 2000-2003	66
Figure 28.	Allocated support by micro region and number of applications served	67
Figure 29.	Funding of major tourism projects in Balaton by category	68

Boxes

Box 1.	Multi-functional micro-regions in Hungary	50
Box 2.	Integration of rural tourism in the tourism framework of the Land of Saxony in Germany	72
Box 3.	Basilicata (Southern Italy) tourism partnership.....	74

Introduction

1. Rural areas still face particular challenges that require special attention from policy makers. Three specific concerns are often identified. First, employment opportunities in primary industries (largely agriculture) are declining. Second, out-migration of young people, along with in-migration of retirees in some places, has led to significant ageing of the population. Finally, most rural areas have difficulty establishing the necessary critical mass of facilities, producer services and investments to support economic development, so that entrepreneurs have difficulty starting up enterprises in the area.

2. Additionally, the recent phenomenon of globalisation confronts rural areas both with development opportunities and with threats not previously encountered, by loosening national ties and enforcing international competition. Globalisation is expected to bring gains to economies in their totality, but it will nonetheless pose severe problems of adjustment to a good number of rural regions. On the other hand, analysis of rural areas in OECD countries shows that a series of new opportunities are opening up, requiring appropriate policy support. These include increased demand on the part of urban dwellers for rural amenities, due to improved transport links either for recreational or residential purposes. Sustained endogenous development has also been observed, reversing patterns of economic decline and out-migration. The sources of economic success include dynamic SME clusters and industrial districts, development of diversified agro-industries, and rural tourism.

3. So far rural policy is still considered by many to be synonymous with agricultural policy in spite of important evolutions in this sector. Even among the most rural regions of OECD member countries, only one out of five jobs is in the agricultural sector (including forestry and fishing). An approach extending beyond agriculture is now required given that the majority of rural citizens, increasingly depend on employment and income generated by a complex mix of interacting economic activities. In this context, a shift is taking place in most OECD countries from traditional sectoral policies to place-based policies and this is evident in policies addressing development in rural areas.

4. Policy responsibilities and in some cases revenue-raising capacities have shifted from the central government to regional and local governments in the past decade in OECD countries. Not only specific tasks have been reallocated to different agencies and the repartition of revenues revised, but more flexible institutional relationships have evolved. A wide range of governmental and non-governmental actors, including the voluntary sector and private enterprises, gradually constitutes policy networks within which solutions to common problems are jointly discussed and policy solutions developed. The functioning of these new forms of governance appears to have a number of key features.

5. First, formal mechanisms of horizontal and vertical co-operation between government bodies and partnerships with non-governmental actors are becoming more frequent. Local and regional authorities are building the necessary institutional bridges among themselves, with the central government, with social partners as well as with NGOs, so as to maximise local/regional participation in policy formulation and implementation. To facilitate these trends, central governments have, in some cases, begun to promote place-based agreements, such as inter-communal frameworks, regional platforms, territorial pacts and micro-regions. These structures promise more co-ordinated projects for local development and more coherent allocation of public resources. Given the increasingly favourable policy environment, local governments now need to further strengthen their own policy-making and implementation capabilities.

6. Second, in the context of these new partnership-based institutions, the role of citizen participation is increasingly emphasised. This permits public policies to be informed directly by representatives of the local community and grass-roots interest groups who have knowledge that can be harnessed to increase the responsiveness of public policy delivery. The bottom-up approach is increasingly anchored in the overall

system of territorial governance in member countries: the challenge is now to make it work more efficiently so as to effectively deliver more balanced, participative and inclusive governance.

7. Against this background, negotiation and contracts become central in establishing new governance structures and in creating dynamic interagency partnerships. Many OECD countries are reconsidering the importance of effective negotiation processes between sectoral government departments, between different tiers of government and between the government and private/voluntary sector actors (some of whom have a stronger bargaining position than others). The approach is based on the assumption that a negotiation process values, on the one hand, the richness of information available at the local level and on the other, the potentially wider vision of the central government. This process can then lead to a better assessment of relative need and thus to a more effective and accountable allocation of resources.

8. These shifts in territorial governance lie at the heart of the process of policy making in rural areas. These policies, present some common features such as:

- Shifting from a focus on a single sector to a new focus on rural places.
- Supporting specific activities to mobilise investment in emerging opportunities, taking full advantage of local resources and capabilities.
- Facilitating the shift from top-down incentives to the development of bottom-up projects targeting co-ordinated development. A bottom-up approach stresses the ability of rural citizens to identify issues, to formulate strategies and to be full partners in implementation.

9. Analysis of these changes, by means of assessments of some of the more promising recent initiatives of this type, will provide recommendations to assist member countries in improving their methods in the strategic phases of conception, negotiation, implementation and evaluation of place-based policies for rural development.

10. In this context a certain number of case studies on Place-based Policies and Rural Development have been requested to OECD. Analysis of the Mexican micro-regions strategy was followed by Spain with two case studies (Extremadura and the Basque Country) in 2004. These are to be completed by Italy (Tuscany), Greece (Crete) and Hungary (Lake Balaton) in the course of 2005. The case studies will contribute to an OECD Thematic Review for Place-based Policies and Rural Development.

11. The following case study on the Lake Balaton region in Hungary is organised in four parts:

The context is presented in part one with developments on regionalisation in Hungary, a description of the specific governance features prevailing in the Lake Balaton region and a profile of rural areas as compared to others in the country. Part two is constituted by an analysis of the evolution of regional and rural development policy in Hungary, followed by that of the Lake Balaton Strategic Development Programme, with specific attention to tourism. Part three analyses national territorial development policy implementation in the Balaton region focusing both on financing and place-based policy governance. Part four contains an overall evaluation of regional, rural development and tourism policies as applied in the Balaton region and of efforts to foster local initiative, with recommendations to improve their efficiency.

1. Context

1.1. Governance framework

1.1.1 Regional governance in Hungary

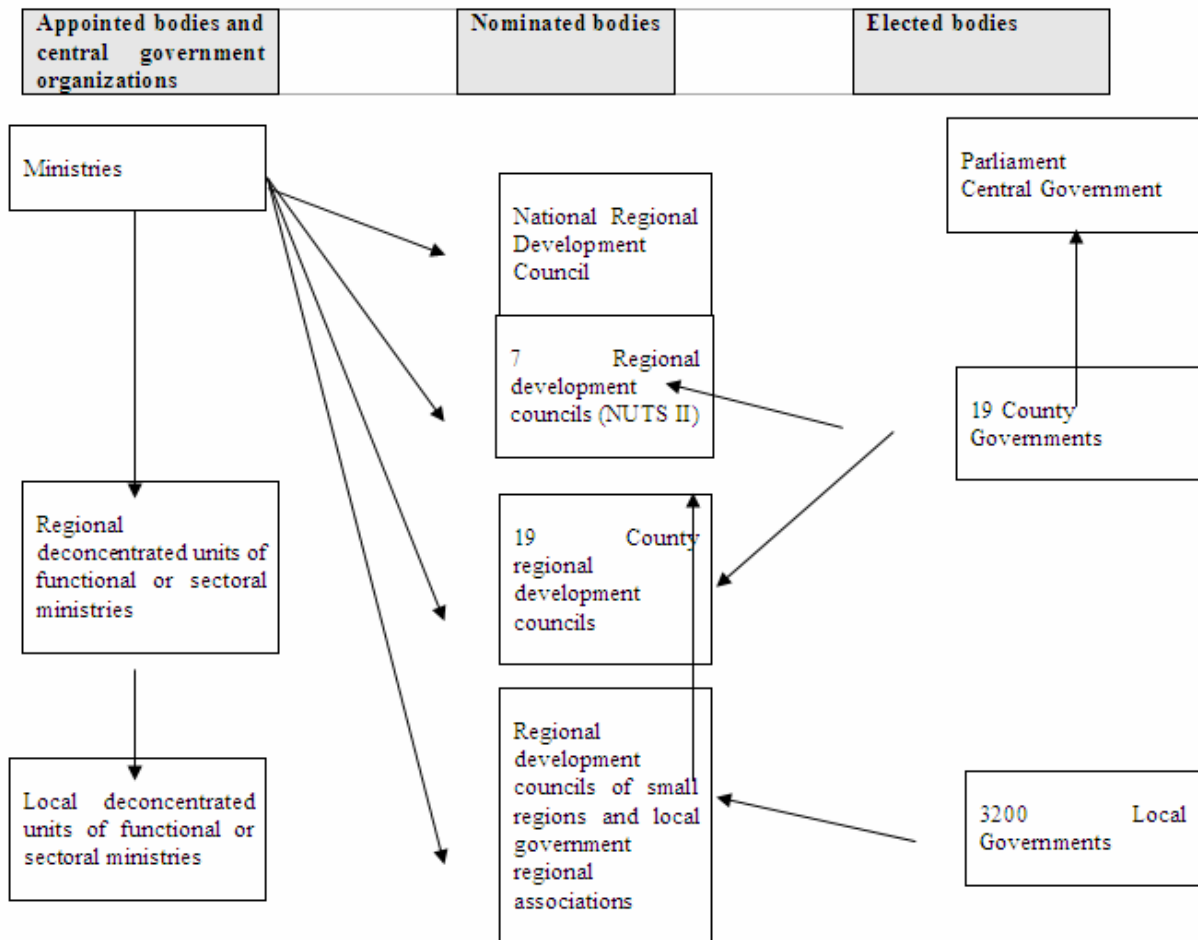
12. Among other transition economies Hungary has been at the forefront in devolving central functions to the local level and in reversing the centralised structures of the socialist period. According to the World Bank (2004) it set about on this path in the 1990s despite a deep economic recession and associated fiscal squeeze in the middle of that decade. Because of that early devolution effort local governments in Hungary have had their first experience with asset and financial management, strategic planning, outsourcing of services, municipal enterprises, public-private partnerships, and project preparation and implementation. In parallel, the perspective of EU accession¹ opened new development paths and methods.

13. With the Act on Regional Development and Physical Planning of 1996, subsequently amended, the Hungarian government has been seeking to create a new sub-national governmental system. The Act on Regional Development thus created new NUTS II regions (EU programming regions) as well as NUTS IV level so-called "statistical micro-regions", while the former NUTS III level counties were retained. Simultaneously, to facilitate multi-level coordination a National Regional Development Council was established. In 2004, different measures were adopted to decrease government involvement in the functioning of regions while strengthening the role of professional associations and NGOs.

1.1.1.1 A complex governance pattern

14. In Hungary today the local government structure includes two elected levels: 19 counties and 3 200 local governments² (see Figure 1). The Hungarian Constitution and the 1990 Act on Local Government established all local governments as equal, regardless of size, meaning that there is no hierarchy of local governments (counties or municipalities) and that distribution of responsibilities is usually shared and seldom exclusive, entailing often complex co-ordination. The Act also established that only legislation could modify its provisions. That legislation, which was a major step in re-establishing democracy in the country, set the conditions for strong local autonomy. The result is approximately 3 200 local units of government where previously there had been 1 500. Average population of local municipalities (including Budapest) is 3 249 but more than 1 600 municipalities have fewer than 1 000 residents. This average size of local government unit is considerably smaller than several other European countries where the range is from 1 580 persons in France to 30 000 in Sweden.

Figure 1. Intergovernmental relations in Hungary



Note: NUTS - Nomenclature of territorial units for statistics.

Source: Kopányi and Wetzel, 2004.

Counties

15. Hungary has 19 counties whose role was somewhat downplayed in the 1990 Act, as compared to the important role they held previously. As indicated above, amongst the local governments there is not a hierarchical relationship and the county-self government is theoretically equal with a municipal government.³ However, the modification of the election system in 1997 led to the county assembly being directly elected by the county population. Counties can be called upon to:

- provide regional public services covering the whole of the county or the larger part thereof;
- organise regional public services when the majority of the service users are not citizens of the county where the service provider is located;
- pursue economic development measures, Act XXI of 1996 on Regional Development and Physical Planning having instituted County development councils.

16. Other provisions of the 1990 Act are not consistent with the above provisions. Thus, municipalities are empowered to unilaterally take on county services, either alone or in association with others.⁴ In 1994 the Act on Local Government was modified to clarify the functions of county government. The amended law asserts that county government's role is not so much service provision but "professional promotion and harmonization", a seemingly co-ordination function with respect to the municipalities that fall within the county. County governments have a kind of residual role as well. If a municipality is unable to carry out a mandated function, county government is obliged to take over the function.

17. Also, in 1994 the amendment of the Act on Local Governments created a new institution for regional development affairs. This corporate body represents county self-government, cities with county-rights, micro-regions and central government, together with the delegates of economic and commercial chambers, local NGOs, employees and employers. This regulation provided the basis of the new Act on Regional Development and Spatial Planning passed in 1996, which also created development councils at the national, regional and micro-regional levels.

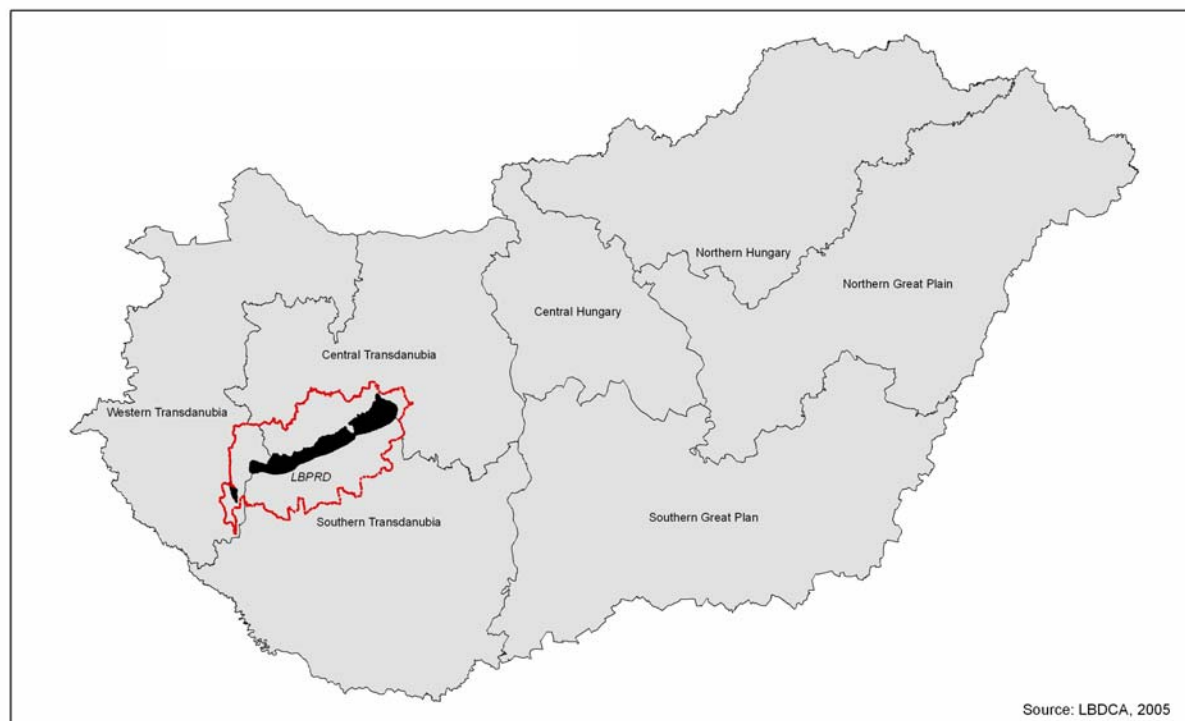
Regions

18. As indicated above regional development councils were created in 1996, meaning that the legal decision was taken even before the creation of the regions themselves, which intervened only two years later, in 1998. When adopting the first National Regional Development Concept, Parliament simultaneously created seven NUTS II regions. The amendment of the Act on Regional Development and Spatial Planning in 1999 then formally obliged all NUTS II regions to establish regional development councils and their agencies, in charge of elaborating and implementing regional development plans and priorities within the broader framework of the National Development Plan (NDP), as exposed further.

19. The seven NUTS II regions are the following:

- Central-Hungary (including Budapest)
- North Hungary
- North Great Plain
- South Great Plain
- Central Transdanubia
- South Transdanubia
- West Transdanubia

Figure 2. NUTS II regions in Hungary



Note: LBPRD: Lake Balaton Priority Resort District.

Source: LBDCA, 2005.

Micro-regions

20. Act XXI of 1996 on Regional Development and Physical Planning (amended in 2004) also instituted development councils within the existing "statistical micro-regions" to co-ordinate and promote economic development within small areas.⁵ Aside from these "statistical micro-regions", Act LXV of 1990 on Local Self-Governments authorises the creation of voluntary micro-region associations to foster co-operation between municipalities, either to implement and manage basic infrastructure⁶ or to support economic development. As in other countries of central Europe like the Czech Republic, a municipality can belong to several associations and the definition of their perimeters obeys to no particular rule concerning the size of the territory and population thresholds. Although they may lack critical mass, these "place-based" associations are definitely the expression of local initiative and co-operation. Recent measures have sought to better organise this approach by introducing new features in micro-regional development: extension to public services such as health and primary education and a financial incentive towards creation of associations with sufficient critical mass, up to the size of statistical micro-regions (see 2.1.2.3).

21. At the beginning of 2005 eight such experimental multi-functional micro-regions, supported by the Ministry of Interior, had been instituted in Hungary, one of which (Marcali) is partially within the area of the Lake Balaton Development Council, but many associations of this type are under development. There is a strong logic towards this as adequate public services in rural areas are key to maintaining the population and offering an adequate local business environment to firms. On the other hand, critical mass is required to ensure the long-term sustainability of such associations and facilitate definition and implementation of local projects. Organising local initiative without stifling it is a challenge facing many countries seeking to encourage place-based approaches within small functional areas and proper implementation requires in particular local capacity building measures.

1.1.1.2 Financial resources and spending

22. Like the institutional reforms in local government and the efforts to build a sub-national system, fiscal reform in Hungarian local government is also still under construction. Local municipalities have more responsibility than in most OECD countries but these responsibilities are not matched by the requisite taxing authority. Thus it is that Hungary is one of the least decentralised OECD countries, from a fiscal standpoint. This means that there is great vertical dependency between the centre and the municipalities with local taxes supplemented by important financial resources allocated by the national government.

23. In the Hungarian system only the state and certain local governments are authorised to levy taxes, with central government dominant in this regard. The revenues of the local governments are mainly based on the shared taxes, *e.g.*, the personal income tax, which is collected centrally by the state. The combined value of the shared taxes and local taxes is not usually sufficient for financing local governments' operations and to perform their compulsory tasks defined in the act on local governments. Central government supplements the shared and local taxes with normative supports, usually for the operation of institutes, as are defined by the Act on local governments. Development budgets are mainly financed by the state as well as through its application system. There is no regional and sub-regional taxation in Hungary: only municipalities can levy taxes and county self-governments have no taxation rights. Regional Development Councils aren't authorised to levy taxes either because these are not elected bodies nor administrative authorities. These entities are thus fully dependent on state subsidies and also rely on EU funding for development projects.

Resources

24. The Act on Local Governments entitles local authorities to their own resources and assets. Consonant with the aims of democratic transition, the rules of private property were applied to local governments. The Act on Local Governments determines their different income sources: local taxes, shared taxes, intergovernmental grants and loans. Local governments have the right to determine the base and rates of local taxes in accordance with the framework established by the Act on Local Taxes. These include the following:

25. The most important local tax is the business tax, a turnover tax on local business units accounting for approximately 80% of local tax revenue. Hungary is the only former socialist country to have introduced such a tax so far. Another local tax is a property tax based on the size of plots or buildings, and on the value of the property in some cases. There are some minor taxes like the tourist tax but the latter is more important in the Lake Balaton area, number one leisure tourism destination in Hungary. The Act on Local Taxes usually defines the ceiling but not the floor of taxes, meaning that local authorities have the right but not the obligation to introduce certain taxes. This provides a framework for competition among local authorities. Before 2001, only half of the 3 200 municipalities have introduced a business tax and only one-third have a property tax. In 2001 75.3% of municipalities levied the business tax, 63.7% the communal tax on individuals, 25.0% the building tax and 12.2% the "plot tax" (on vacant land). These

shares have increased slightly over the last four years. Local governments are also free to establish fees for local utilities. In summary the following taxes can be levied by local governments:

- Wealth Taxes: Building Tax (plot and improvements), Property Tax (tax on vacant land);
- Communal Taxes: Personal Community Tax, Corporate Community Tax, Tourist Tax;
- Local Business Tax.

26. Besides direct local taxes there are also shared taxes in Hungary. The most important shared tax is the personal income tax (PIT). Introduced in 1990, it was at that time entirely handed over to the local level. In 1991, the share going to the local level was reduced to 50%, in 1993 to 30%, and in 1999, increased to 40%. However, the cessation level (the percentage of tax revenue remaining in its place of origin) is only 15%. The remaining 25% are redistributed between the municipalities on the basis of several horizontally equalising formulae akin to the grant system. The Budget Act defines the revenue split of the PIT, which can be adapted annually by a simple parliamentary majority.

27. Intergovernmental grants fall into three well-defined groups: non-earmarked normative contributions given to local governments, specific state grants, voted state grants:

- The around 20 single normative grants are mostly paid on a per capita basis. The formulae on the basis of which the grants are distributed are revised periodically, and the total amount of contributions is subject to the annual parliamentary budget debate. Technically, all grants are subsumed and then paid to the municipality as one single amount. This group accounts for approximately 80% of intergovernmental transfers.
- Specific state grants that are also distributed through normative methods, but are restricted to a specific use. The main investment priorities are set every year by the Government which include the development of the sewage system, waste disposal, healthcare (hospitals) and education (schools). This accounts for approximately 10% of intergovernmental transfers.
- Some State grants that are distributed by Parliament individually, for conditional use in large-scale infrastructure projects. This group also includes some grants that the county development councils can decide upon (Targeted Decentralised Assistance). This accounts for approximately 10% of intergovernmental transfers.

28. In addition to these instruments of direct support to regional development, several indirect aids are also employed. For example, there are special state subsidies for supporting regional development given to counties the per capita GDP of which is less than 70% of the national average, and additional support is given to particularly disadvantaged micro-regions.

29. The Act on Local Governments gives local governments the freedom to borrow from financial intermediaries and local capital markets. However, as a consequence of local bankruptcies in the aftermath of transition, restrictions on local borrowing were introduced in 1996. The law maximises the upper credit limit to 70% of the local authorities' own revenues. Furthermore, like the German model, local authorities are bound to abide by the golden rule of public finances, which stipulates that borrowing should finance capital expenditures. This rule, however, is not always strictly followed.

Spending competencies

30. Municipal governments are responsible for the operation of basic level public services (local elementary school, health care) and the maintenance and development of local infrastructure (local roads, sewage system, telecommunication network). County governments are responsible for the operation of the more sophisticated institutions, *e.g.*, hospitals, greater libraries, academic grammar schools, vocational schools, theatres, museums, and they get central government support for these tasks as well.

31. With respect to development issues organisations responsible for spending of government funds are situated at the municipal, micro-regional, county and regional levels:

- Municipalities retain an important role as they benefit from development funds allocated by different ministries (see below). However, because of the more than 3 100 local governments, the Hungarian view is that there is excessive fragmentation. It is in response to this that action was taken to increase the role of county government and regions, micro-regions as active players in the sub-national fiscal and governance system and, consequently, diminish the individual role of the smallest municipalities.
- At the level of the statistical micro-regions, the micro regional development councils do not have own tax revenues but receive government funding. Support comes from the state through appropriated grants and different programmes. The micro-region development councils are responsible for the coordination of developments on the level of the micro-regions, and for the betterment of the intermediate educational and welfare system, mainly the middle level institutions (secondary schools, local hospitals, polyclinics...).
- The regional development role of counties remains in parallel to that of the other levels of local government, but its importance is relatively increasing. County development councils (with no administrative authority, which distinguishes them from the county assembly with self-government's rights) are active players bringing together different institutions (micro-regional councils, the county assembly, the minister responsible for regional development, the regional tourism committee and towns of county rank). The county development councils operate application-systems that are financed from the budgetary appropriations related to the implementation of the regional development objectives and the budgetary appropriations related to decentralised development support.
- At the level of the seven NUTS II regions (programming regions with no administrative authority), regional development councils elaborate regional development strategies the implementation of which are financed by EU and central government funds. Since 2005 the Regional Development Councils are authorised to redistribute more than 35% of central government funds, while the County Development Councils are able to allocate 30% of these. The Lake Balaton Development Council, for the corresponding functional area also benefits from central government financing but is not directly eligible to EU funding as it does not have programming region status. These different points will be developed in the following sections.

1.1.1.3. The evolution of local public finance

32. Local governments' activities are primarily influenced by the amount of centrally and locally collected revenue and the proportional distribution of total government receipts between central and municipal budgets. In Hungary, municipal budgets receive 13 to 17% of GDP, a relatively high proportion by international standards. The macroeconomic constraints of the early 1990s postponed the renewal of local assets and led to the deterioration of several public services. By 2001, municipal investments were

still well below replacement rates, which may threaten local development in the future. The recent financial history of Hungarian municipalities can be broken into two periods.

- *Deficits from 1991 to 1996.* After the system changed in 1990, local public finances came under severe budget constraint. Like many transition economies, Hungarian GDP fell by 20% in the years between 1990 and 1993. Over 1990-1998, general government expenditures declined by 31%. Locally generated revenue, local taxes, privatisation programmes and the transfer of assets to local governments did not counterbalance the reduction in general government transfers. Furthermore, local government revenues did not keep pace with inflation. In 1994, there was a significant 8.8% real decrease in revenues. Local expenditures did not keep up with inflation, but increased more rapidly than revenues. The worsening financial conditions resulted in negative savings for municipalities.
- *Surpluses from 1996 to 1999.* In the second period, local governments managed to keep balanced budgets. The Act on Local Bankruptcies (Act XXV of 1996 on Managing Public Debt of Local Governments) limiting borrowing to finance capital expenditures, helped strengthen local budget constraints. In addition, local governments reduced their expenditures, increased their own revenues (mainly from the sales of assets), privatised and contracted out services. Most local governments used their privatisation revenues to finance local investments and to reduce their debts. Unfortunately, in most cases, shares of privatisation revenues were spent on running expenditure instead of investments or reducing debts.

1.1.2. Governance framework of Lake Balaton

1.1.2.1. A complex functional area with legal status

33. Because of the unique features of the "Lake Balaton Priority Recreational District" (LBPRD) as a special national resource, fragile and under environmental threat, a specific territorial development council, the Lake Balaton Development Council (LBDC), was established by the 1996 Regional Development Act. The only other specific territorial council established by law is the Development Council of Metropolitan Budapest. Figure 3 shows the complexity of government in the Lake Balaton region that covers 3 623 km² (only part of the catchment area) and includes 164 separate municipalities defined in the appendix of the Balaton Act.⁷ The functional region is established upon parts of three NUTS II regions, three NUTS III counties and 14 NUTS IV micro-regions. Regarding multi-level governance issues, it appears essential to co-ordinate place-based policies in special rural and tourism areas like the Balaton region where other institutions at the national, regional, county and micro-regional levels all intervene.

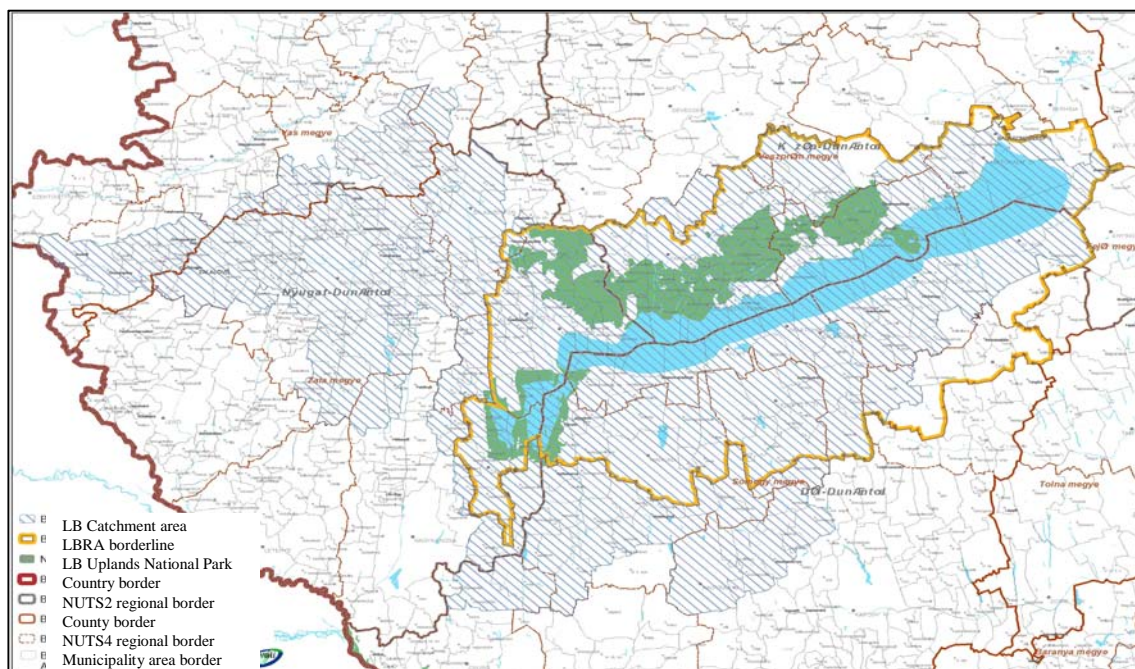
34. The three NUTS II regions upon which the perimeter of the LBPRD is established are:

- Central Transdanubia
- South Transdanubia
- West Transdanubia

35. Each of the NUTS II regions has a single county that overlaps with the Lake Balaton area:

- Veszprém county (Central Transdanubia)
- Somogy county (South Transdanubia)
- Zala county (West Transdanubia)

Figure 3. The Lake Balaton Catchment Area and perimeter of the LBPRD



Note: Lake Balaton catchment area is hatched and borderline of the LBRA is the thick grey line.

Source: VATI, 2004.

36. The territory of the LBPRD includes all or part of 14 micro-regions represented in the Lake Balaton area. Some of these micro-regions are completely within the Lake Balaton area and some only partially overlap with the Balaton Area. The NUTS IV micro-regions with responsibilities in the Lake Balaton area and their respective counties are:

- Somogy county: Balatonföldvár, Fonyódi, Lengyeltóti, Marcali, Siófok, Tab
- Zala county: Keszthely–Hévíz; Nagykanizsa; Zalaszentgrót
- Veszprém county: Ajka, Balatonalmádi, Balatonfüred, Tapolca, Veszprém

37. Only four of these micro-regions (Balatonalmádi, Balatonfüred for Veszprems County, Balatonföldvár and Fonyód for Somogy County) fall completely within the Lake Balaton area. The rest of the micro-regions have varying proportions of their settlements within the Lake Balaton area. Two of them (Ajka and Zalaszentgrót), have only a single settlement within the Balaton area. Five of the micro-regions have no lakeside settlements and will necessarily have somewhat different views and interests in certain cases than those settlements that are adjacent to the lake.

38. It is precisely this multi-layered, vertically and horizontally organised governmental structure attempting to deal with one of Hungary's most treasured assets, the Lake Balaton area, which – by the mandatory regulation of the Act on Regional Development and Spatial Planning – rationalises the

geographical area, the LBDC co-ordinates on broader regional development issues with other regional development councils through the TERET forum. This forum was created in 2004 by the "non-administrative", but normative-based Regional Development Councils at the NUTS II level to build consensus on regional development issues in order to advise the National Regional Development Council.⁸

40. LBDC makes decisions on the spending of the financial assets referred to its competence and concludes agreements with ministries about the financing of the different development programmes. By operating a system of calls for applications, it makes project implementation decisions. It plays an important role in harmonising the development efforts of the Balaton Tourism Committee, the local governments and micro-regional associations concerned, and communicates with the partner organisations involved in regional development and various NGOs. Further, it plays an important part in ensuring that EU and Hungarian development support can be successfully received in co-operation with the regions and is effectively used, in line with the long-term development concept of the Balaton.

41. Before the amendment of the Act on Regional Development in 2004 the LBDC had 31 members with voting rights, and almost 40 members with non-voting consultation role. The modifications of the Act made in 2004 streamlined membership and the size of the Council was reduced to the minimum of 18 members among them ten with voting rights.

42. Firstly, the statutory members of the Council defined by the Act with voting rights are:

- a representative of the Government (1);
- a representative of each regional development council (3);
- the chairman of each county development council (3);
- a maximum of three representatives from the micro-region development councils (3).

43. Secondly, in addition to the members determined by the Act the Council has the right to invite other organisations or persons to participate in its work. However, the number of such members may not exceed one-third of the number of members determined by the law. Moreover, the council may ask one or more ministers to take part in the work of the council. The minister concerned may also motion for participation in the council. The strategy of the council is to keep itself in a manageable size concerning additional "invited" members, as indicated below:

- a representative of Lake Balaton Regional Tourism Committee (1);
- a representative of the Minister without portfolio in charge of Regional Development (1);
- a representative of the Minister of Economy and Infrastructure (1);
- a representative of the Minister of Environmental Protection and Water Management (1);
- a representative of the Minister of the Interior (1).

44. At present the Council has 15 members with voting rights. Also, the representatives of micro-region development associations shall have voting rights in the territorial development council when discussing development programmes that involve their respective region.

45. Thirdly, according to the Act, the Council has eight non-voting members with a purely consultative role:

- one representative for each chamber concerned by economic affairs (county chambers of trade and industry, and county chambers of agriculture) (6);
- the "chief architect" of Balaton (1) who is a national civil servant;
- the president of the Administration Office of Somogy County where the Council's head office is located (the County Administration Office exercises judicial oversight of the territorial development councils) (1), although it is registered in Veszprém.

46. Fourthly, the Council has the right to invite other organisations with consultative role to its meetings. Hence the council recently invited as permanent attendees the:

- directors of the regional development agencies (3);
- directors of county development secretariats (3);
- representatives of regional NGOs representing permanent residents and holiday home owners (2);
- a representative of the Balaton Alliance (region-wide association of municipalities) (1).

47. Similarly to Regional Development Councils, to carry out the task of co-ordinating and implementing comprehensive development processes, LBDC established the Lake Balaton Development Co-ordination Agency (LBDCA). It acts as the secretariat of the Council as well. LBDCA has about 25 employees (20 full-time and five part-time). The main responsibilities of LBDCA are the following:

- participating in the elaboration and implementation of the Strategic Development Programme, its sub-programme and the long-term and medium-term regional development concepts;
- co-ordinating and managing projects which contribute to the development of the region;
- co-ordinating and contributing to research projects on Lake Balaton, especially those on water-quality and the protection of the environment;
- supporting and co-ordinating local and micro-regional development initiatives;
- preparing grant applications (environmental, economic) for submission to national and international funding agencies while controlling and managing the use of these funds;
- ensuring continuous co-operation with the three counties, the three regional development councils, the municipalities, entrepreneurs, professional and civil organisations;
- creating and maintaining a unified data processing and information service system, which contains data not only on water quality, environmental protection, development but also on tourism and education.

48. The annual budget of the agency is partly financed by the council, partly earned by programme management and offering consultation services. About one-quarter of the income is provided by the council to cover its Secretariat work. Another quarter of the income represents the management fee of the grant aid scheme for the council. The remaining half is earned by project and programme management, as well as planning and consultation work for municipalities and micro-regions within LBPRD. The average

budget of the last four years was about HUF 140 million. There will be a significant increase in 2005 by implementation of new projects.

Lake Balaton tourism organisations and other actors

49. The Lake Balaton Priority Recreational District and the Lake Tisza Recreational Area (in the Great Plain East of Budapest), subtracted from the areas of the corresponding NUTS II regions, are assigned with regional competence, on an equal footing with the seven other official tourism regions. As all tourism regions, the LBPRD has a tourism committee, the Balaton Regional Tourism Committee, responsible for the development of the region's tourism policy, tourism development concept and plans, and the related implementation programmes in line with national tourism policy. The Committee collaborates with the counties and local governments, commercial chambers, trade organisations, regional development councils, county and local tourism agencies and the tourist information offices (Tourinform). Since 2005 Regional Development Councils and Tourism Committees have started working together, and their agencies also collaborate in this process. Likewise, there is a Balaton Regional Tourism Project Office⁹ in the area, responsible for communication with local tourism providers and regional organisations, the elaboration of regional marketing, and assisting in the restructuring and development of quality tourism products.

50. In addition to the micro-regional associations, the local governments of the settlements in the region formed an alliance. The "Balaton Alliance", established more than 100 years ago (1904) to promote the interests of the lakeside municipalities, was revived by the municipal councils in 1989, and since 1991 has been operated by local governments and citizen's representatives in a new form and with new bylaws. It is interesting to underline that the perception of common interests and the logic of common projects in the Balaton area is an old one. The issue here is how a bottom-up initiative of this type can integrate the logic of the functional region defined from above and operating in a "shared mode" since its council integrated both regional/local and national representatives. The corresponding governance issues will be examined in the third section of this case study.

51. Another relevant feature of the Lake Balaton area in terms of potential for local initiative and success of place-based policies is the ratio of civic/social organisations as compared to the total population, which is higher than elsewhere in the country. The number of Non-Governmental Organisations (NGOs) per 1 000 inhabitants exceeds even the average of Budapest. NGOs play an important role in the region particularly in the formulation of an environmentally aware attitude and in the development and strengthening of a unique regional self-identity. The close to 2 200 NGOs regrouped in 2001 under a single umbrella organisation: the "Association of Civil Organisations of Lake Balaton". Historically, "bathing associations" have strong traditions in the region. Today, self-organisations of civil society play a significant role. Women's organisations are on the rise and are co-ordinated by a sub-organisation, "Women for Balaton". Type of associations in Balaton are indicated in Table 1.

Table 1. Functional type based distribution of NGOs in 2002, in the LBPRD

Functional type	Zala sub-region	Somogy sub-region	Veszprém sub-region	Total	%
Culture, education related	83	133	203	419	19.1
Sport	71	198	205	474	21.6
Public security, citizen defence	20	58	36	114	5.2
Interest representation	69	161	134	364	16.6
Free-time, hobby	49	119	132	300	13.7
Miscellaneous	107	207	208	522	23.8
Total	399	876	918	2 193	100.0

Source: Central Statistics Office (CSO).

1.2. Profile of rural areas in Hungary and Lake Balaton

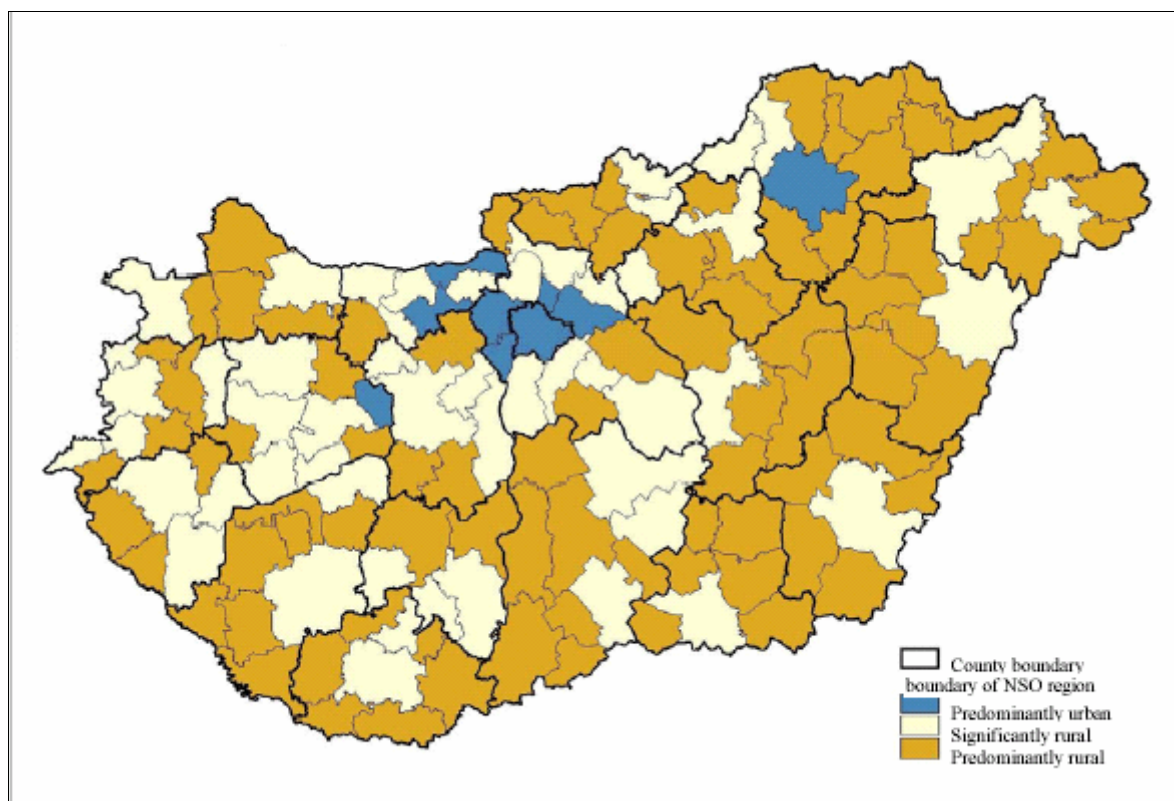
1.2.1. Rural areas in Hungary

52. Over 96% of Hungary's territory is considered to be rural areas by OECD criteria, 58% as predominantly rural.¹⁰ Figure 5 displays the rural areas of Hungary by the NUTS IV regions and the OECD typology. Seventy-five per cent of the total population lives in these rural regions: the percentage of those living in predominantly rural areas (31%) is three times higher than the EU average (9.7%). Thirty-five per cent of the population lives in villages and over one-fifth of the population lives in villages with less than 1 000 inhabitants. More than half of Hungarian villages belong to this category (according to the Central Statistical Office, CSO).

53. Overall, energy supply and telecommunication facilities are able to satisfy the needs of the rural population but other basic services are not sufficiently developed and their standard differs among the various settlement types. In general, small villages, especially in Northern Hungary and in Southern Transdanubia and outlying farm sites in the Northern and Southern Great Plain, are the less favoured. Public utilities, services and infrastructure are generally less adequate in these areas than in larger settlements. The transport and access systems are also lesser developed. Infrastructure related to agricultural production (sites of individual farms, agricultural service road network, water supply and drainage facilities, modern manure disposal) require significant improvement.

54. The demographic conditions of rural areas in Hungary are less favourable than those of urban regions. The birth rate is decreasing, the age structure of the population is unfavourable, inhabitants are moving away from small settlements and the proportion of the economically inactive population is high (up to 70% in small villages of several NUTS IV regions). The unemployment rate in villages is 30% higher than the national average. It is as high as double this rate in small villages with less than 500 inhabitants. Unskilled people, older workers and disadvantaged groups (including the Roma population) are in the most critical situation. Notwithstanding this, the living environment of rural areas is basically healthy, suited for leisure and recreation. These areas have rich natural, architectural and historical heritage and significant local traditions, including well preserved handicraft and trades. Quality food products and gastronomic traditions also represent an important asset in terms of the attractiveness of these areas to tourists.

Figure 5. Classification of territorial units in Hungary (NUTS IV regions) by OECD typology



Source: CSO TSTAR database.

1.2.2. Lake Balaton profile

55. The Lake Balaton Priority Resort District (LBPRD) covers 3 623 km², including 594 km² for the lake itself at medium water level. It comprises 164 municipalities: 148 villages and 16 towns (see Table 3). Only 41 municipalities have territory bordering on the Lake: the great majority (123) are "background municipalities" that have not benefited very much up to now from tourism, mostly concentrated on the lakeshore. The permanent population of the region in 2002 was 258 000. It comprises approximately 3.9% of the total land mass of Hungary, while only 2.5% of the total population is located here. The average population density is 71 persons/km², which is well below the national average, and less than any of the regions in Hungary, mainly because there are no large cities in the area. The main agglomerations in 2004 are Siofok on the southeast shore (24 342 inhabitants), Kezsthely on the north western shore (21 739 inhabitants) and Balatonfüred on the northeast shore (13 244 inhabitants). Table 2 below shows the permanent population concentrated on the lakeside.

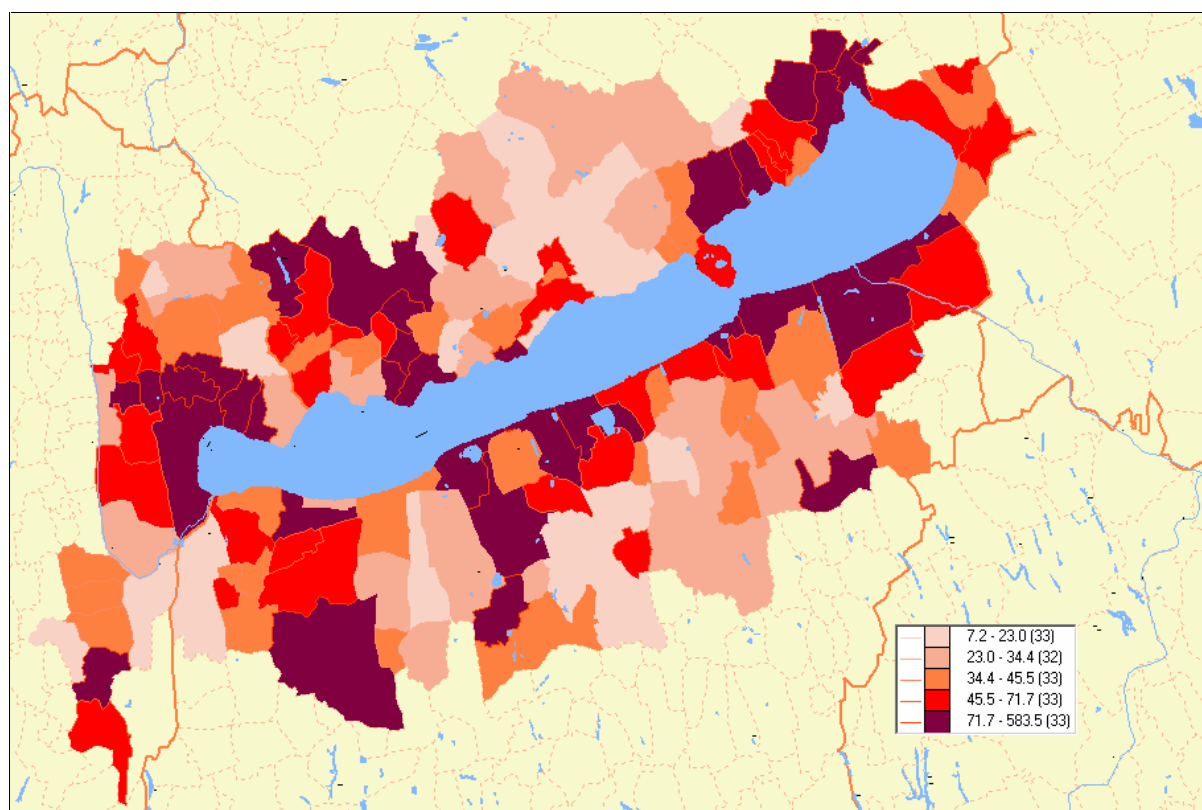
Table 2. LBPRD population density, 2002

	Lakeside municipalities	Background municipalities	LBRA total	Hungary total
Permanent population, persons	149 356	109 151	258 507	10 243 809
Area, km ²	1 439	2 184	3 623	93 029
Population density, persons/km ²	104	50	71	109

Source: Central Statistics Office of Hungary (CSO), 2002.

56. Figure 6 shows that population density mainly depends on the distance from the lake and from the larger towns. This dependence is quite obvious along the southern shore and – with some exceptions – on the northern shore.

Figure 6. Population density by municipalities in 2002



Source: GKI, 2004.

57. Lake Balaton stretches over a length of 235 kilometres, with width varying in most parts between five and 12 kilometres. There are 107 kilometres of built-up lakeshore. The northern side of the lake features gentle, well exposed slopes where vineyards were long ago established and medium high hills with higher mountains further north that offer valuable natural amenities for tourism (Balaton Highlands National Park). Tihany peninsula, adjacent to Balatonfüred, juts into the lake from the Northeast reducing its width from its tip to a mere 1.5 km. To the West lies the catchment area of the river Zala, with marshlands bordering on the Marcali hills. River drift has created there the Kis-Balaton or Little Balaton which is a flora and wildlife preserve offering numerous endemic botanical varieties. North of this area is Lake Heviz, the largest warm water lake in Europe, with medicinal qualities and temperatures of up to 38 degrees centigrade. The Somogy hills to the Southwest, which also boast vineyards, close off the area. From then on to the eastern side of the Lake situated beyond Siofok there is a practically uninterrupted line of beaches and lakeshore tourism infrastructure.

58. As the ninth largest natural lake in Europe, Lake Balaton differs from most others of similar size because it is so very shallow, with only 3.6 metres average depth. That characteristic makes it more subject to temperature changes (generally warmer) and very fragile in terms of water quality and sedimentation. The high level of instability of the lake can be explained by this since certain characteristics can be easily and quickly altered by hydro-meteorological effects. Between 2000 and 2003 the lake consistently lost water by evaporation losses exceeding the combination of inflow and precipitation. Water quality is affected also by other factors such as phosphorous load which contributes to “water blooms” (extensive proliferation of algae) that impairs various water uses including bathing. Thus, because of its great importance to tourism, management of Lake Balaton’s water is of the highest priority for the Lake Balaton Development Council. Notwithstanding recent setbacks in the water budget, chlorophyll-A concentrations have been kept under control since peaking in 1994, though low water levels makes that increasingly difficult.

59. The economic base of the Balaton region is heavily dependent on service sectors as Table 3 shows. Comparing LBPRD characteristics to national levels make clear the larger share of the tourism related sectors (commerce, accommodation services) in the economic base of the region. Striking sub-regional differences are however to be found: whereas the lakeside settlements feature 13.5% of employment in accommodation services, this percentage drops to 5.6% in background settlements. These spatial differences are also reflected in the location of agricultural activities: in lakeside communities agricultural employment is at a low 3.4% whereas in background settlements it reaches 8.1% (regional average of 5.4%, very close to the national average of 5.5%). These sub-regional contrasts clearly show that there is room for rural tourism development in the hinterland in conjunction with a traditional agricultural activity heavily oriented towards wine, a strong tourism asset.

Table 3. Economic sectors by types of municipalities in 2002

Sector	LBPRD			Hungary
	Lake-side settlements	Background settlement	Total	
Agriculture	3.4	8.1	5.4	5.5
Industry	16.3	27.5	21.0	26.5
Construction industry	7.9	7.8	7.8	6.4
Commerce and repairing	17.2	11.8	15.0	14.4
Accommodation services	13.5	5.6	10.2	3.6
Public administration, education	22.2	21.5	21.9	22.5
Other sectors	19.5	17.7	18.7	21.1
Total	100.0	100.0	100.0	100.0

Source: GKI, 2004.

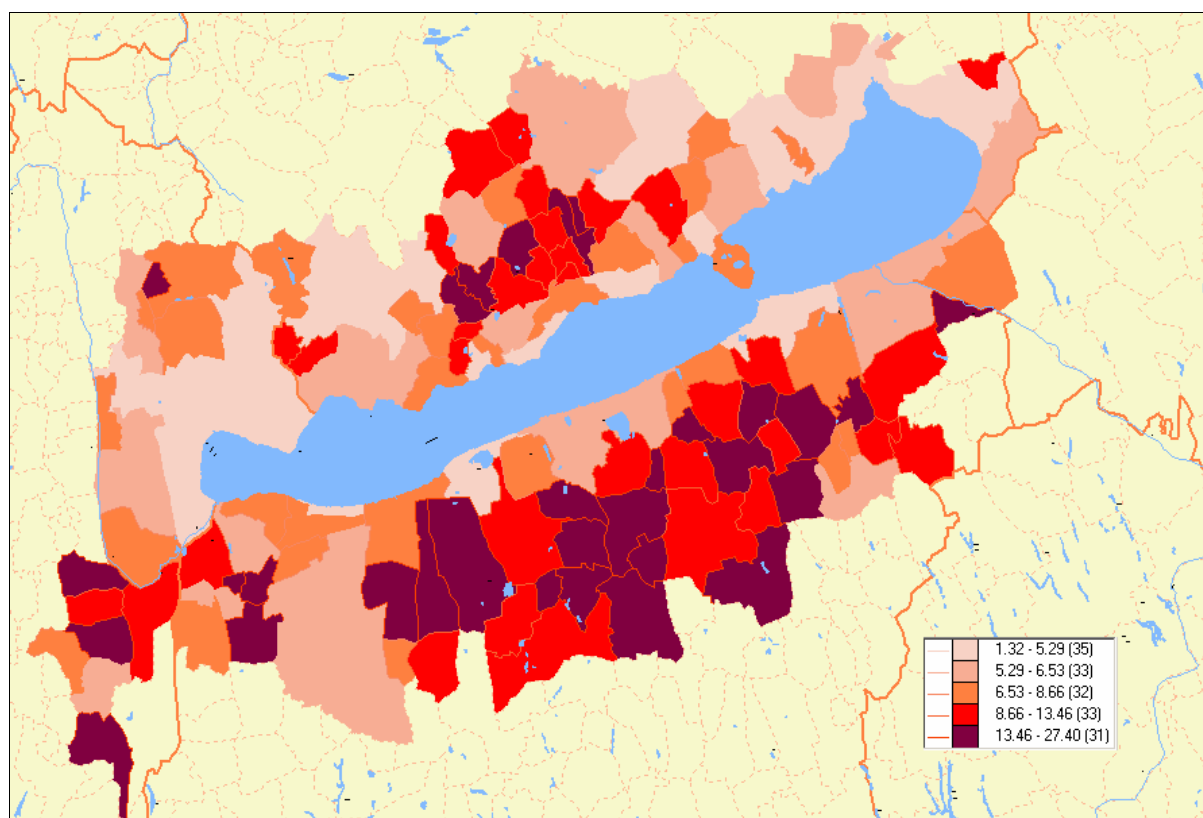
60. Tourism has been for many years the economic mainstay in the Lake Balaton Priority Recreational District, with the lakeshore and resort areas having strongly benefited from this principle source of income. The issue today for these areas is maintenance and increase of tourism revenue from the domestic market and foreign markets in a sector that is more and more prone to global competition. Delivery and marketing of new quality tourism products is at the fore. On the other hand, one of the most pressing rural development issues in the region is how much areas away from the lakeshore, the “background” communities and people, can share in and contribute to, the major economic engine of the region. The maps and discussion of jobs, income, and population change that follow display some of these challenges for the Lake Balaton region.

Unemployment

61. In 2002, the rate of unemployment in the LBRA was 9.4% (expressed in percentage of the economically active population), and that is slightly below the national average, 9.9%. Spatial distribution of unemployment is shown in Figure 7. In the case of lake-side municipalities, the unemployment rate is often below 4%, while in those with lower tourism value (especially among the background settlements south of the lake), the rate is in the 14-25% range.

62. Because of the strong seasonal nature of the economy, unemployment is lower in the summer months when the annual average of 9.4 % is reduced to around 5%. Actual off-season employment is lower than shown by unemployment data, since some employers retain staff at minimum wages. On the other hand, actual summer unemployment is lower than the statistical figures because of non-registered employment.

Figure 7. Rate of unemployment (% of the active population) by municipalities, 2002



Source: GKI, 2004.

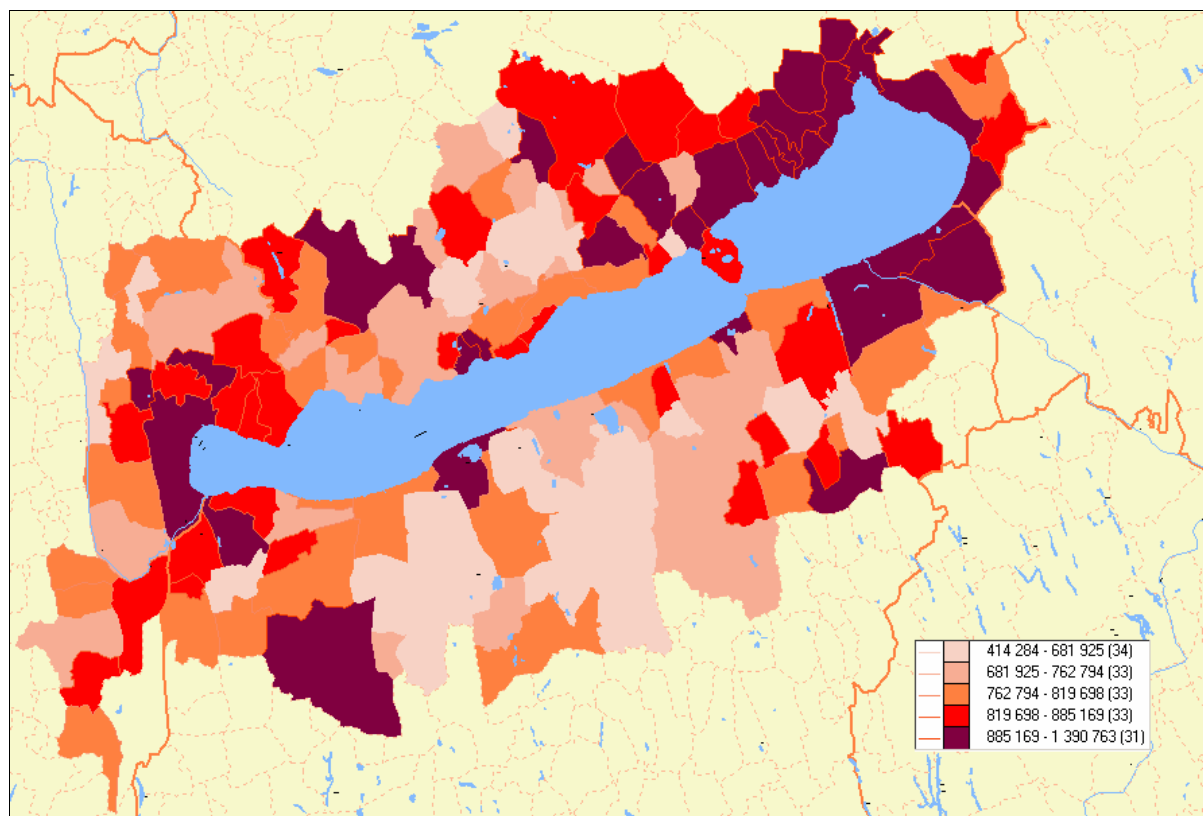
Income

63. In 2002 in Hungary the annual average gross wage (pre-tax income from employment) was HUF 982 000 (USD 5 223). The annual average gross income was HUF 1 099 700 (USD 5 849). Regarding LBPRD, the admitted income is significantly lower: in 2002 the annual average pre-tax income from employment was HUF 781 000 (USD 4 154) and the annual average gross income HUF 892 000

(USD 4 744). Compared to other regions in Hungary, the income within the LBPRD is still among the lowest in the country. The explanation for this may be twofold. First, as a large part of revenue originates from tourism, there is by definition a non-negligible portion of hidden income. The second relates to the seasonal character of the regional economy. Those working in the tourist industry earn most revenue in the summer months and the rest of the year their earnings stay well below the average. In all cases, the average low income somewhat dispels the notion of an affluent and prosperous region that high levels of tourism income would tend to emphasize.

64. Similar to employment statistics, spatial income distribution exhibits large variations as Figure 8 shows. Those living in the background settlements of the southern shore (Lengyeltóti sub-region) have the lowest income, with an annual average of HUF 721 000 (USD 3 835), at some municipalities as low as HUF 500 000 (USD 2 660) which, in monthly terms, equates to HUF 41 700, well below the minimum wage. The highest income is realised by those living in the lake-side municipalities to the East. In the Siófok and Balatonalmádi, Balatonfüred, and Enying sub-regions, the annual net income was above HUF 1 000 000 (USD 5 320). Clearly, tourism has great influence on jobs and income in the area but the most rural and background communities appear not to be sharing in the results of this economy. “Appear” is used here judiciously since it is very difficult to discern what might be the case for those communities without the tourism economy. It is possible that they would be in even greater difficulty, deprived of emerging "spill over" effects that hold promise for the development of rural tourism.

Figure 8. Per capita net income of taxpayers in HUF by municipalities, 2002



Source: GKI, 2004.

Population Trends

65. Following a general tendency in Hungary, the population is declining in most municipalities of the LBPRD. In the region there are two general causes: natural decline (mortality exceeds birth rate) and migration. Permanent population during the last decade has been declining at an annual rate of 0.41%. Migration balance is slightly positive, 0.17% per year in the same period, resulting in a 0.24% per year net population decline. Assuming the continuity of present trends, by 2050 the population will decrease by 11%.

66. Comparing the trends in the LBPRD with that of Hungary, in the period 1997-2002, the population of the Balaton region decreased by 0.4 %, while in the whole country the population decreased by 1.7%. This difference can mainly be explained by immigration into the LBPRD. The migration balance of the region is positive and in 2002 it amounted to 0.17% of the total population. When examined in relation to similar statistics presented in other regions, this positive migration balance indicates that the Balaton area is one of the most popular target locations to settle in within Hungary, mostly for elderly people.

67. Demographic trends in the LBPRD are characterised by an aging of the population, and out-migration of younger generations. Within the last five years, the age structure has shown a slight but steady shift: the share of the 0-18 age group decreased by 1.4% and the 18-59 group increased by 0.7%, while those above 60 increased by 0.9% (see Table 4). The increase in the ratio of the older generation can partly be explained by the decrease of the youngest generation, (low birth rates). Another reason is the immigration of pensioners into the region resulting in an older age structure than the nationwide average.

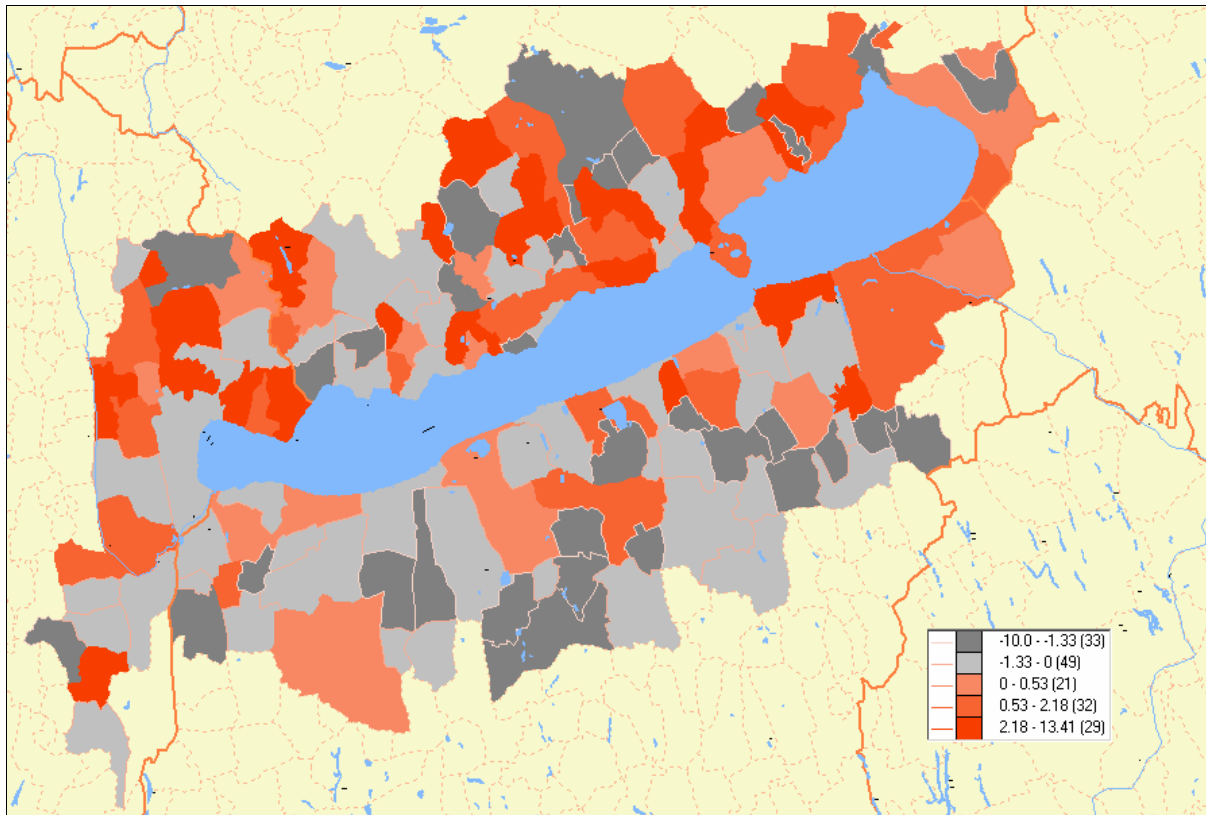
Table 4. Size of different age groups (% of permanent population), 1997-2002 in LBPRD

Year	Age groups (%)		
	0-17	18-59	60+
1997	21.2	59.2	19.5
1998	20.8	59.5	19.7
1999	20.4	59.8	19.8
2000	20.2	59.9	20.0
2001	20.0	59.9	20.1
2002	19.8	59.9	20.4

Source: CSO.

68. When examined at the community level it is apparent that demographic trends vary significantly from the regional average. In the case of smaller municipalities out-migration is dominant, while the migration balance of towns and neighbouring settlements is usually positive. Differences in the migration balance patterns are depicted in Figure 9. Clearly, with lower incomes and fewer jobs, with the major attraction in the region being the lake and access to it, the least desirable place to live is in the background communities, and it is those communities showing declining populations.

Figure 9. Migration balance as % of permanent municipal population, 2002



Source: GKI, 2004.

1.3 Tourism in Hungary and Lake Balaton

69. In Hungary in 2003 the statistically defined tourism sector represents 1.59% of the GDP and 2.8% of the employed. According to a wider definition (including accommodation services and the catering sector) it represents 5.0% of the GDP and 6.3% of the employed. If secondary economic effects were considered, tourism would account for 10.4% of the GDP and 10.2% of the total number of employees (Ministry of Economy and Transport, 2003). Hungarian Tourism trends differ for domestic and foreign visitors so it is necessary to look at these markets separately, when it comes to analysing regional developments: which groups are changing their travel habits and which categories of customers should be addressed with new strategies?

1.3.1 Foreign and domestic tourism

70. According to the World Tourism Organisation (WTO), Hungary ranks 12th in the world's tourist destinations for arrivals in 2002 and 33rd in terms of tourism receipts. In Europe, Hungary is in the 7th position after Germany and before Greece (see Table 5) (WTO statistics, 2003). Foreign tourism in Hungary is concentrated in the Budapest, Balaton and Western Transdanubian Regions. Guest nights in these regions accounted for 82% of total foreign guest nights in 2003.

Table 5. International tourist arrivals in 2002 in Europe

Destination	International Tourist Arrivals			Share (%)
	2002 (000s)	Change (%)		
		01/00	01/02	
France**	77 012	-2.6	2.4	19.3
Spain**	51 748	4.6	3.3	12.9
Italy**	39 799	-3.9	0.6	10.0
United Kingdom*	24 180	-9.4	5.9	6.0
Austria***	18 611	1.1	2.4	4.7
Germany***	17 969	-5.9	0.6	4.5
Hungary*	15 870	-1.5	3.5	4.0
Greece**	14 180	-1.5	3.5	4.0
Poland**	13 980	-13.8	-6.8	3.5
Netherlands***	9 595	-5.0	1.0	2.4
Belgium***	6 724	-0.1	4.2	1.7
Croatia***	6 944	12.2	6.1	1.7
Ireland**	6 476	-4.4	1.9	1.6

Notes: The figures stem from different sources * arrivals at frontiers / ** arrivals at frontiers without day visitors/ ***arrivals at hotels.

Source: World Tourism Organisation (WTO), 2003.

1.3.1.1 Source countries in Hungarian foreign tourism

71. Major source markets for tourism in Hungary are Germany, Austria, Italy, the Benelux, Poland, and the United States, France, the Scandinavian countries, the United Kingdom, Russia, Japan and Canada. Concerning nights spent in Hungarian commercial accommodation the most important source countries in 2003 were in the following order: Germany (36.3%), Austria (7.2%), Italy (4.2%), the Netherlands (4.2%), and the United States (4.1%). In terms of border arrivals Austria takes the leading position before Germany, as shown by Table 6.

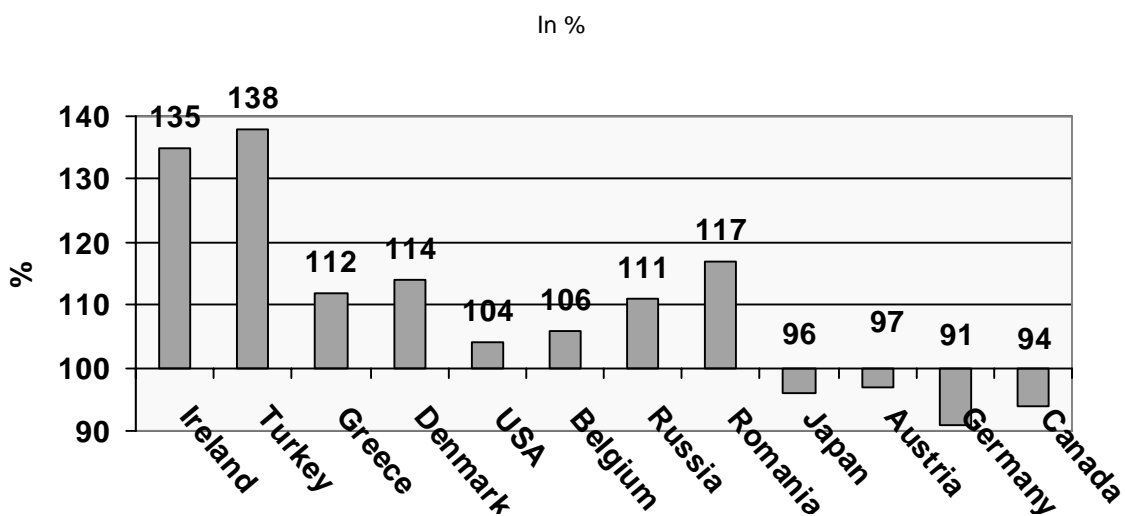
Table 6. Arrivals in Hungary by countries of origin, 2001-2003

	Arrivals at frontiers by country of origin, 2001–2003		
	2001	2002 (000s)	2003
Austria	4 790	4 735	4 870
Germany	2 726	2 739	2 875
Poland	767	906	768
Italy	419	418	466
USA	355	335	304
France	187	233	249
The Netherlands	211	239	240
United Kingdom	200	207	208
Switzerland	117	127	158
Sweden	117	123	132
Israel	119	90	104
Russia	93	88	91
Belgium	66	73	85
Japan	97	87	79
Denmark	54	58	67
Finland	73	67	59
Canada	61	61	54
Norway	38	37	38

Source: CSO, in Tourism in Hungary, 2003.

72. The main markets in Hungarian foreign tourism are shrinking (Germany, Austria) while some new markets are growing (e.g., Denmark, Ireland, the United States) as demonstrated in Figures 10 and 11. These dynamics reflect on trends in recreational behaviour but also on competition on global travel markets. In the case of Hungary, one of these is that East-Germans can now choose among world wide destinations instead of being eastward bound in their holiday planning, with Hungary having been in the past one of their favourite destinations.

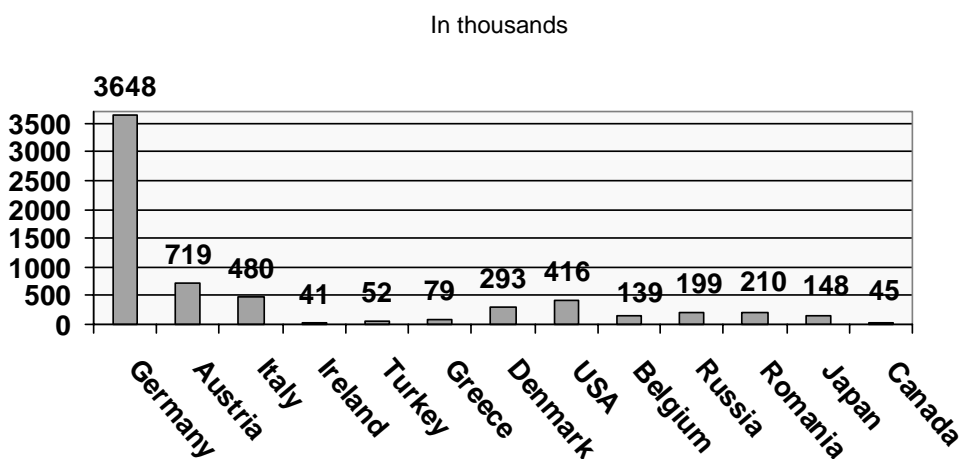
Figure 10. Changes in Hungarian guest nights by major source countries, 2002-2003



Source: Hungarian Statistical Office.

CSO

Figure 11. Hungarian guest nights by major source countries in 2003



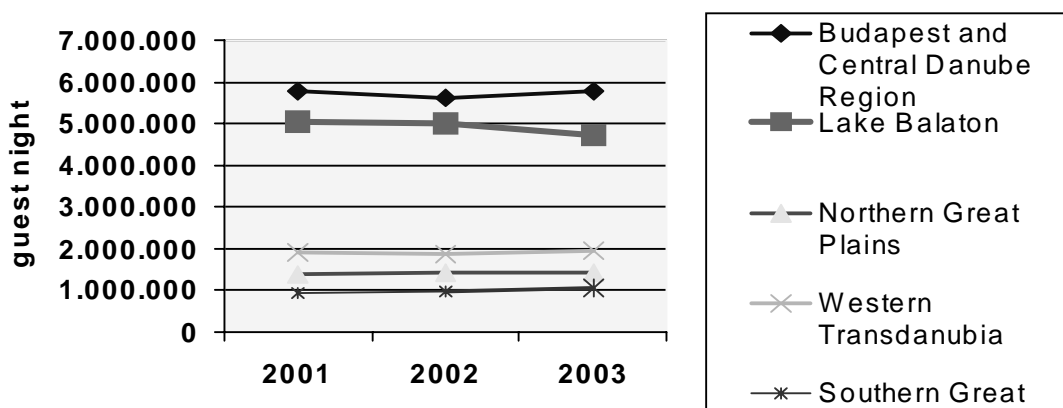
Source: Hungarian Statistical Office.

CSO

1.3.1.2 Lake Balaton, a major foreign tourism region in Hungary

73. Lake Balaton holds the second position in Hungary in terms of foreign tourism behind Budapest and the Central Danube Region, as indicated by Figure 12. The most important source markets for Lake Balaton tourism are overwhelmingly Germany (63.4%), and Austria (9.2%), together accounting for more than two-thirds of foreign visitors in the area. Other significant source countries in Balaton are Denmark (7.2%) and the Netherlands (6.9%).¹¹ Foreigners stay on average for exceptionally long periods in the Balaton Region (5.9 days), explaining that the area is an important contributor to net tourism revenues in Hungary: in 2003, 15.9% of foreign generated accommodation revenue in the country originated from the Lake Balaton Region (Ministry of Economy and Transport, 2003). Since in 2003 foreign tourism generated 70.9% of the total commercial accommodation revenue of HUF 88.8 billion in Hungary, total foreign-generated accommodation revenue in the Balaton Region amounted to HUF 10.16 billion.¹²

Figure 12. Guest nights in Hungary by major destinations, 2001-2003



Source: Hungarian Central Statistical Office, 2003.

CSO, 2003

74. Since foreign guest nights in the Balaton Region fell by 10.4% in 2003 and Lake Balaton accounts for 29% of the total Hungarian foreign guest nights this decrease necessarily has a substantial impact on the national tourism economy. If the decrease in guest nights is transferred directly to accommodation revenue the loss would amount to HUF 1.5 billion. Multiplier effects on indirect economic impact further increase this loss for both the regional and the national economy. Guest nights in the Balaton Region show a general decline while other Hungarian Regions show slightly upward trends. The foreign tourism segment is chiefly responsible for this: as shown above, the shrinking German and Austrian source markets are one of the main factors.

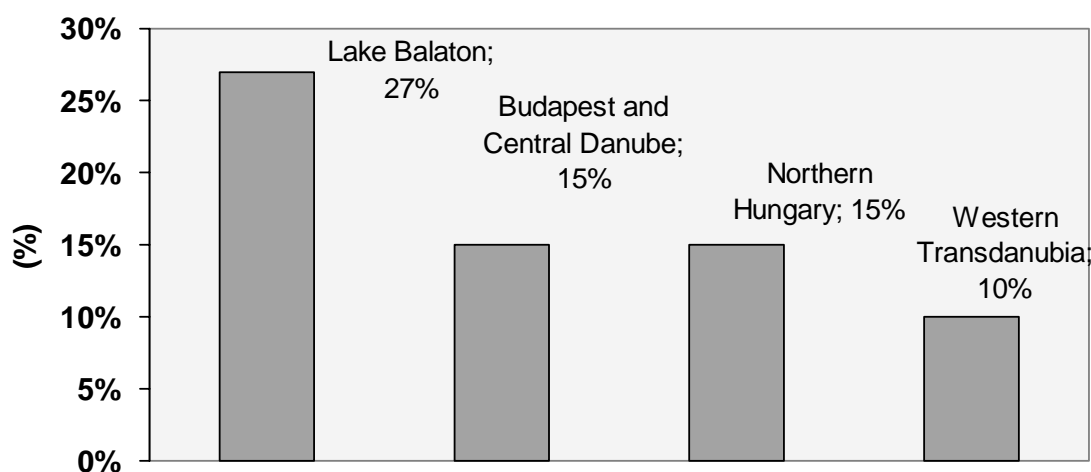
1.3.1.3 Domestic tourism

75. In Hungary the figures for guest arrivals as well as for guest nights in domestic tourism are following an upward trend. 53% of guests in 2003 at commercial accommodations were

Hungarians (+6.5%) and they accounted for 46.1% of the total guest nights in Hungary (+6%). This increase in domestic tourism was observed in all Regions.

76. Though in general Lake Balaton is the most popular holiday destination in Hungary, the entire segment of domestic tourism in Hungary shows a lower concentration compared to foreign tourism. Twenty-seven per cent of Hungarians chose Lake Balaton as their travel destination (see Figure 13), closely followed by Budapest and Central Transdanubia (15%), Northern Hungary (15%) and Western Transdanubia (10%) (Ministry of Economy and Transport, 2003). In terms of guest nights the Balaton Region leads more clearly (21%) reflecting on the holiday character of domestic tourism and thereby longer periods of stay. Out of the total of 8.6 million domestic guest nights nation wide 1.8 million guest nights were spent by Hungarian tourists in the Balaton Region. The revenue from domestic tourism is estimated at HUF 5.5 billion, which is the equivalent to the 21.5% share in guest nights drawn from the HUF 25.8 billion relating to domestic tourism nation wide.¹³

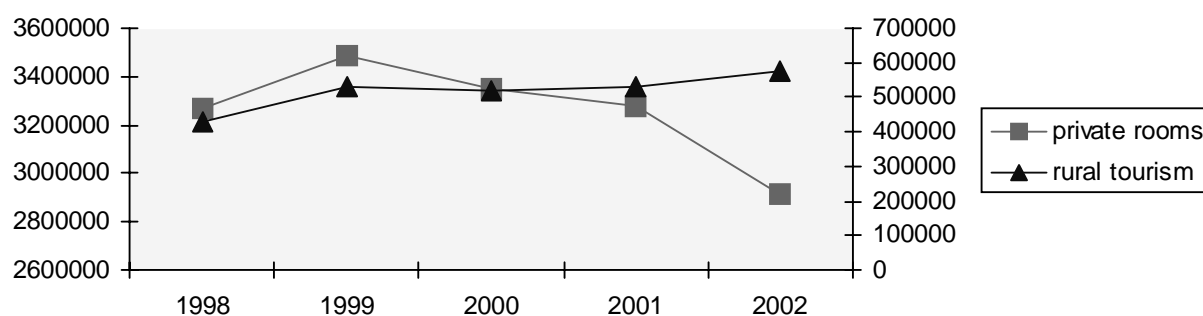
Figure 13. Most popular domestic destinations in Hungary, 2003



Source: Ministry of Economy and Transport, 2003.

77. Concerning rural tourism, in most countries national markets still dominate this growing segment and this is the case in Hungary. Whereas in the sector of private accommodation in Hungary, guest nights are on the decline, rural tourism is on the rise as Figure 14 indicates. The share of guest nights in rural tourism (575 530) comes to about 19% of private accommodation in 2002 in Hungary and has experienced steady growth over the past years. Market trends show an increased share for international markets but up to now only Austria has been able to tap this new potential. The countries that are gaining importance as international source markets for rural tourism are those with a well established tradition in rural tourism within their own domestic market: France, Germany, the United Kingdom and the Netherlands are in this case (Eurogites Bulletin 3, 2005).

Figure 14. Guest nights in rural tourism in Hungary, 1998-2002



Source: Hungarian Central Statistical Office.

1.3.2 Tourism enterprises in Hungary and Lake Balaton

78. The most important changes in the Hungarian tourism industry concern the growth of small and medium-sized private enterprises, the transformation of the system of social tourism and the disappearance of the traditional monopolies in the tour operation and accommodation sectors. The number of joint ventures has been growing and most of the former state-owned companies have been privatised. The supply has been becoming increasingly varied and more and more participants have been sharing in a declining market. While in Hungary private business in comparison to state owned and municipal business only holds a market share of 39%, in the Lake Balaton Region this figure is 67% for domestic private property and 22% for foreign owned enterprises. Also, the bed capacity in private accommodation in the Lake Balaton region of 156 746 units makes up for 76% of the country's total of 203 827 units.

79. Before 1989, the accommodation sector of Hungarian tourism consisted of three state-owned hotel chains (Ratz, 1995): Pannónia, Danubius and HungarHotels. Though in the 1980s, international chains opened hotels in Budapest, these establishments were jointly owned with the Hungarian state, managed by Hungarian companies and profits were shared. The three hotel companies were transformed into public limited companies in 1989-90, but their further privatisation in the autumn of 1991, in the framework of the First Privatisation Programme was not considered successful.

80. Despite the difficulties experienced in privatising the large chains, the largest part of the Hungarian accommodation capacity became private quite quickly, as smaller family and private enterprises including restaurants were expanding all over the country, mainly around Budapest and in the Lake Balaton area. By 1991, 280 private guest houses and hotels and 114 private campsites were operating there (see Table 7), by now these numbers have grown to 450 and 170, respectively. Additionally, many hotel investments were made with considerable foreign capital. In Lake Balaton foreign investments concentrate in the western Region – where the potential in spa and high quality tourism is high and the airport of Sármellék, a former Soviet military base, itself purchased by an Irish investor, provides international access.

Table 7. Accommodation and catering businesses in LBPRD, 2002

Accommodation and catering businesses by Small Statistical Regions of the LBPRD (2002)						
Name of SSR	No. of enterprises	Mean no. of employees persons	State	Municipal	Domestic private	Foreign
				Ownership share (%)		
Fonyódi	52	2.6	0	0	89	11
Marcali	3	7.0	0	97	3	0
Siófoki	127	7.0	0	0	91	8
Balatonalmádi	48	8.0	22	35	41	2
Balatonfüredi	89	10.3	12	0	77	12
Tapolcai	65	3.3	0	14	47	40
Veszprémi	3	4.0	0	13	87	0
Keszthelyi	154	12.4	0	4	74	21
Nagykanizsai	13	16.8	0	0	22	78
LBRA total	554	8.5	4	7	67	22

Source: CSO, 2003.

81. Between 1998 and 2003 the number of accommodation facilities increased by 25% in the Lake Balaton area. This increase differed among the categories of accommodation. Four-star hotels won by 695% which means there are seven times more high standard facilities than there were in 1998. The number of youth hostels increased by 222%. The losing categories were the medium budget one- and two-star hotels. There is now stronger segmentation between a high quality and a low budget sector. The medium standard sector is on the decline like elsewhere in Europe. Besides private rooms and commercial accommodation there are a substantial number of holiday houses in the LBPRD (7 217 built between 1990 and 2001). The majority belong to domestic owners (6 266) and only less than 10% belong to foreign owners (851) (Hungarian Central Statistical Office, 2001).

82. High quality accommodations like spa hotels were built. Since guest nights did not increase at the same speed as capacity this could be a sign that new investment here should be done with caution, to avoid over capacity. Most of the commercial accommodation facilities are pensions and hotels, with two- and three-star hotels constituting the largest fraction of the latter. The restructuring process can be observed all over Europe. In particular German tourists now show preference for high-quality accommodation. For these reasons, one- and two-star hotels should not be modernised but should rather be renovated to become three- and four-star hotels whenever possible.

1.3.3 Tourism assets in Balaton

1.3.3.1 Accessibility

83. The Lake Balaton area enjoys generally good accessibility. Road transportation in the lake-side settlements goes through the main routes No. 7, 70, and 71 but there are few cross-links in the background settlements. The main route No. 7 on the south shore will soon be doubled by the extension of the motorway coming from Budapest that will reach the Croatian border (end of 2007). The new motorway should facilitate access to all south shore settlements from the capital but will also reduce driving time to the Mediterranean coast from Hungary, a destination that is increasingly sought by Hungarian tourists. On the other hand, accessibility to the northern shore from Austria remains more locally problematic. In particular during the summer season, through-pass capacity on the northern lakeside is far below that required. The new motorway is thus both a challenge and an opportunity, provided that a "roadside"

strategy can help in directing tourists in transit to the Balaton area, but in the future improved access to the north shore will be required.

84. On the southern shore, there is an international railway line (Budapest-Székesfehérvár-Siófok-Nagykanizsa-Mirakeresztúr, maximum speed is 100 to 120 km/h) equipped with up-to-date safety devices while on the northern shore, the railway is operated with diesel engines (Budapest-Székesfehérvár-Tapolca, max. speed is 80 km/h). There are 67 stations near the railway, nevertheless travelling by train around the whole lake is impossible (missing segment: northern part of the region in Csajág area).

85. Navigation has a significant role in transport between the north and south shores and operates separately from tourism aims, but is interrupted during the winter months when the lake is frozen in. The navigation service use 21 public harbours and two ferry harbours. Ferry service between the Tihany peninsula in the North and Szántód on the southern shore plays an important role. Also there are increasing numbers of sailing ports with spaces for 5 000 sailing boats.

86. There are two airports (Sármellék in the west and Siófok-Kiliti in the southeast) in the region to provide limited international and domestic access. In addition, authorisation procedure for civil aviation of the military airport in Szentkirályszabadja (Northeast) is in progress. Currently the airports of regional importance – except for Sármellék – can receive only small- and medium-sized planes safely, and only function for seasonal tourism, sport and business journeys. Since Sármellék is suitable for bigger planes its further development for charter flight services could be useful to support not only Spa and Wellness tourism but also economic growth and commerce in the western part of LBPRD. This airport is already benefiting from state subsidies and grants aiming to develop it as a regional airport serving both the West-Pannon and Balaton regions, showing that its strategic value has been well recognised, which should facilitate future development.

87. The Sármellék airport (see Table 8), a former Soviet military airbase, has been acquired by a private Irish investor (Clearwater Holding Plc.), operating in Hungary under the name "Fly Balaton Holding" since 2004. The main objective is to increase the capacity for incoming charter flights (110 flights in 2004), Efforts to promote the Sármellék airport for charter flights target the German, UK and Scandinavian markets for incoming spa tourism during the high seasons. Regional tourism authorities contemplate an educational campaign to upgrade English speaking abilities of tour operators and hotel management and staff in the Balaton region where German language proficiency remains more developed.

Table 8. Sarmellek airport traffic, 1997-2003

	Airport service in Sármellék		
	1997	2002	2003
Number of passengers	8 000	15 000	23 000

Source: CSO, Strategic Development Programme of Lake Balaton, 2001.

1.3.3.2 Characteristic tourism assets

88. Lake Balaton offers 594 km² of water area, prime attraction of the Region but also a fragile ecological resource which needs to be preserved: efforts over the past ten years having reversed the worrisome trends of pollution and lowering water levels witnessed during the preceding period. Its shallow shorelines and sandy beaches in the south are favoured by families for bathing holidays, while the northern shoreline with its hills and volcanic formations make up for a picturesque and scenic environment. The

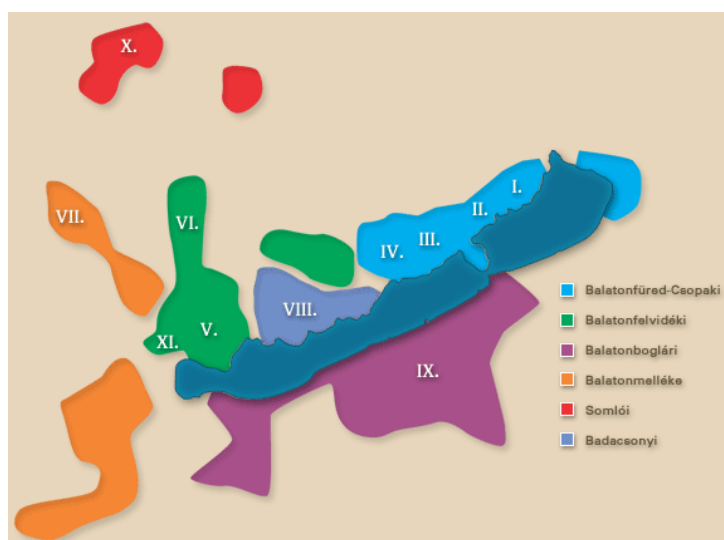
91. The area around Lake Balaton is rich in thermal springs. The combination of "recent" volcanic activity (20 000 years ago) and mineral deposits provides waters with healing qualities. Ground water, which has leached minerals from rock deposits, is heated by hot spots in geo-thermal anomalies (heat convection). Where such waters reach the surface, they might provide medical thermal lakes or spring sources. The main Spas are: Hévíz, Buzsák, Tapolca, Táska and Zalakaros. Recent efforts aim to diversify the customer base by attracting younger tourists (wellness and relaxation, sports facilities) through promotional campaigns seeking to present a more "modern image" of a spa vacation offering related activities. New spas have been built for that purpose, often with public financial support as in Zalakaros, conveniently located at reasonable distance from Sarmellek airport.

92. Cultural events are regularly hosted in the Balaton Region. The "Anna Ball", organised in Balatonfüred for more than 180 years is one of the most important festivals in Hungary with dancers in historical costumes performing traditional dances. Since the summer of 2000, a cultural event called "The Valley of Arts" has been held on the northern side of the lake, near Kapolcs, attracting thousands of local and international artists and travellers. It was started as a local project by Hungarian contemporary artists who settled down in Kapolcs, the centre of six little adjacent villages in the gorgeous Káli valley. The ten-day long arts event includes film, music, theatre, visual art exhibits, and literature readings, and is held at the end of July, running through the beginning of August.

1.3.3.3 Vineyards and wines

93. Hungary is one of the traditional wine growing countries of Europe. Archaeological findings show that between the fifth and first centuries B.C. Celtic people certainly cultivated vines here. Then the Romans in Pannonia, (Transdanubia) also pursued vine cultivation and wine making. Today, Hungary has 22 wine regions, depending on soil and climatic conditions, of which six are to be found within the Balaton Region, as shown in Figure 16. Wine regions are organised in "wine councils". Its basic and most important units, the wine communities, represent the vineyards located around one or a few communities (towns or villages) and harmonise, co-ordinate and guide wine production and trade of these areas. Hungary has a total of 313 wine communities at present. The representatives of the wine communities belonging to a particular wine region form the Regional Council of Wine Communities.

Figure 16. Balaton Wine Regions



Source: National Council of Wine Communities.

94. The Regional Council of Wine Communities is committed to promoting the establishment or maintenance of the uniform image of the particular wine region and this is increasingly linked to the development of rural tourism. Guests either come because they have a particular interest in regional wines or they enjoy wine as an additional attraction on their holidays for both, the cultural and the gourmet aspect. Themes around wine, like wine making, history, and wine and food serve as tourism attractions. There are now five "wine routes" around Lake Balaton: Badacsony Wine Route, Balatonfüred-Csopak Wine Route, Balaton Highlands Wine Route, Somlo Wine Route and Zala Wine Route.

95. The Balaton Region possesses a major asset for the development of quality wine and associated rural tourism, with many potential synergies: the Research Institute for Viticulture and Oenology located in Badacsony founded by the Ministry of Agriculture and Rural Development in 2002. The experimental and research work of the Institute concerns sustainable development of the biological basis, research in variety value, clone selection breeding, evaluation and propagation and finally research in integrated grape production and wine producing methods. The main results of the Institute have been achieved in breeding, variety value research and in the investigation of environmentally-friendly grape production methods.

96. The Institute shelters several "mountain community"¹⁴ organisations, and provides an office for the regional supervisor of the National Wine Qualifying Institute (OBI). Since 1999, the Badacsony Wine-road Association and the Association of Environment-friendly Winegrowers for the Balaton also have their head offices in the institution's headquarters. Building upon such institutional networking the institute could act as a catalyst for the development of wine tourism. The regional wine road associations, the wine communities and their Council provide potential for this but coordination is required. The institute could thus contribute to market the region's uniqueness in terms of wine varieties, their history and the high quality standards of viticulture and wine making itself.

97. Wine tourism depends on the unique experience of wine as a combination of tasting, cuisine, accommodation, information about technology and ecology and an atmosphere of extraordinary tradition and hospitality. To promote these modules to become the "marketable package of wine tourism", wine producers (becoming more and more providers of accommodation), restaurants, hotel owners and tour operators have to develop their business strategies by integrating regional marketing concepts for the Balaton Region. This involves education in high quality production (including ecologically friendly methods) as well as training in how to present wines. The knowledge base and inter institutional network of the institute could be utilized for these planning and training activities and development funds could be used to finance them.

1.3.3.4 Sports activities

98. Horses are a central part of Hungarian culture and identity built upon the image of the "Puszta" (Northern Great Plains). In spite of the rise in equestrian tourism activities during the 1990s in Hungary, qualification and language skills of trainers and horse guides leave room for improvement. The number of trained instructors is low and the quality of horses below international standard (National Tourism Committee, 2005). In the Balaton Region only few operators market equestrian products. However, there are 25 riding schools around Lake Balaton, which means there is a basis for developing diversified equestrian programmes and co-operation with accommodation providers. A good example for equestrian tourism products is the Riding Village in Zamardi: Riding holidays may comprise horse trekking, hunt riding, picnic rides. Programmes cater for one-day activities as well as for one-week trips. In addition there are events and equestrian attractions for tourists like horse races and shows. Natural conditions for equestrian tourism in the Balaton Region are good: the diverse and scenic countryside is an invitation to cross country rides.

99. There is a great potential for cycling in Balaton and regional actors have begun to respond to the trend of cycling tourism. There is a newly built cycling route around Lake Balaton, which constitutes an important tourism asset that is probably under-exploited for the time being, with synergies that could be developed with other forms of tourism, in particular rural tourism and the offering of all inclusive packages (lodging and meals, bike rental, suggested circuits marketed through appropriate channels). There are about 101 km of built, designated bicycle roads, and 104 km of bicycle-friendly roads circling the lake (see Figure 17).

Figure 17. Cycling paths around Lake Balaton



Source: Balaton tourist cycling information, 2005.

100. Fishing could have a great potential all around the Lake and could be integrated into new products and tourism strategies. This is not presently the case as the fishing resources of the Lake have diminished in recent years and strict control is enforced (fishing licenses). Future replenishment could open new perspectives. Hunting tourism is well established. However, conflicts may arise with nature-tourism, if rules and regulations were not obeyed and hunting quotas not strictly limited.

1.3.4 Types of tourism in Balaton

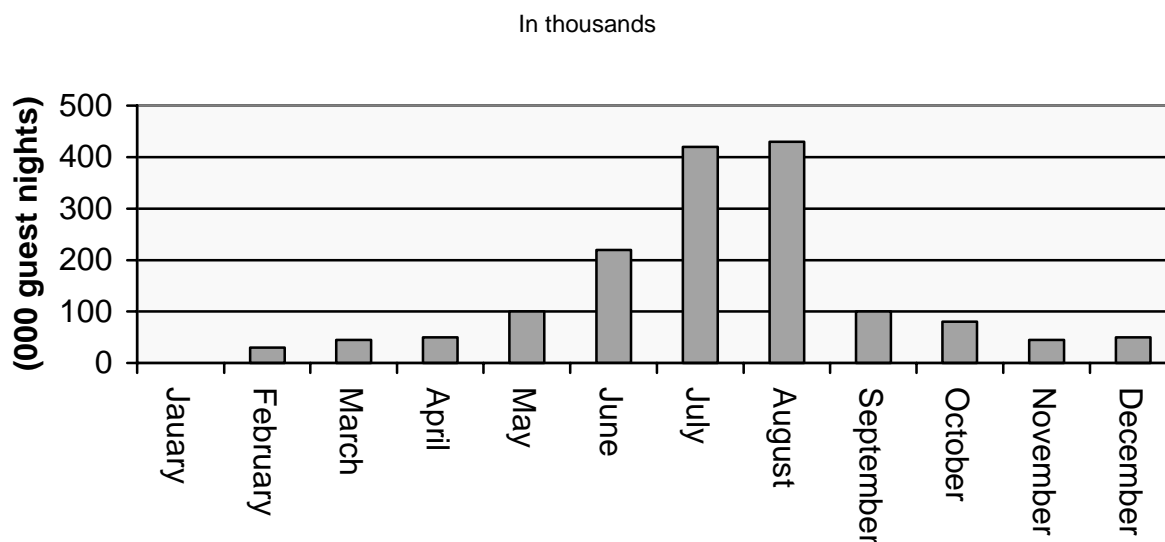
1.3.4.1 Lake side tourism

101. At the turn of the 19th century summer holidays at the sea side and at lake shores became attractive for urban bourgeois families. Spas like Balatonfüred and Siofok were the core areas for mass summer tourism. Today all around the lake, beach tourism is established. Thanks to the development of infrastructure for both domestic and foreign tourism during the post war era, Lake Balaton became the "Hungarian Bath Tub". Beach activities, swimming, surfing and boating characterise this type of tourism. It is water bound and therefore highly concentrated in lake side communities. Its secondary economic

effects (besides accommodation and restaurants) relate to water sport facilities, discos and consumer shops, so there are few gains for actors of the hinterland in this segment that is highly seasonal – and so are employment and income in tourism related jobs.

102. Low budget summer tourism is still the main feature at Balaton today. Though no data is available for a statistical divide of tourist types, it can reasonably be estimated that the majority of the region's 4.7 million guest nights in 2003 (see Figure 18) relate to low and medium budget lake-side tourism. The majority of accommodation facilities belong to three star hotels (23%) bungalows (30.8%) and campsites (22.5%). There is a substantial decline particularly in foreign guest nights in the Balaton Region (-9.7%) of 976 000 in 2003. For domestic guest nights the decrease was less dramatic (-3.2%). Lake Balaton is by far the most popular domestic destination. Out of the total number of Hungarian 8.6 million domestic guest nights in 2003, Lake Balaton accounted for 2.3 million guest nights (27%) (Hungarian Central Statistical Office, 2003).

Figure 18. Guest nights in Balaton region, 2003



Source: CSO, 2003.

1.3.4.2 Spa tourism

103. Hungary is one of the prime spa destinations in Europe (besides Germany and the Czech Republic) and the number of guests in Hungarian spa tourism grew by 6.7% in 2003, instead of +2% country-wide (Ministry of Economy and Transport, 2003). The Lake Balaton Region is one of the main spa areas in the country. Spa tourism could even be rated as the earliest form of tourism in the Balaton Region. Since the Roman era the healing qualities of the waters near the town of Heviz have been known. In 1795 the development of spa-infrastructure and operations was initiated by Earl György Festetics (builder of the Kezsthely castle, a tourism landmark). Balatonfüred on the northern lake shore followed soon. Spa tourism in its modern aspect started in the 18th century and new spas like Balatonboglár opened at the beginning of the 20th century. More recently another important spa-destination was opened at

Zalakaros, west of Kis Balaton (Little Balaton wetland area) after hot thermal waters (96 C°) were discovered there in 1962.

104. Today these destinations are operating in a liberalised but tight European market. Like elsewhere, modernisation of infrastructure, marketing and innovative product development in the health and wellness sector are the main challenges for Spa Resorts in the Balaton Region. Thanks to substantial investment, spas have become the top money makers around Lake Balaton. However there are also Balaton specific issues to address. The general image of the region, which still has a taste of the cheap mass tourism of the post war era, is not supportive to spa marketing. The spatial proximity of lake side mass tourism and spa tourists can create conflicts. Also, spa tourism could profit from tourism development of the hinterland, development of bad weather activities and modernization of lake side tourism in general.

1.3.4.3 Rural tourism

105. Rural tourism is developing in all countries, with more and more visitors interested in new experiences, sports and discoveries in an unspoiled and quiet environment. The number of tourists involved has increased significantly and tourism has developed in all types of country-sides instead of being limited to areas of exceptional scenic beauty. According to a broader definition, "rural tourism includes a range of activities, services and amenities provided by farmers and rural people to attract tourists to their area in order to generate extra income for their businesses" (Kloeze, 1994). If this concept is accepted, rural tourism covers not only farm tourism or agro tourism (which is generally what rural tourism means for most people), but also special interest nature holidays, touring in rural areas and residential tourism, and the services include – besides accommodation – events, festivities, outdoor recreation, production and sale of handicrafts and agricultural products, etc.

106. In terms of marketing, rural tourism addresses new trends towards quality tourism, like eco-tourism, nature tourism, outdoor sports and activities; wine tourism. In short, spiritual and physical wellness is sought in a rural environment. Lake Balaton possesses remarkable endowments from this point of view but rural tourism in the area is only incipient. Accommodation on farms, wine routes, cycling tourism, horse riding, national park tourism and cultural heritage sites are not yet depicting what could be called an integrated rural tourism profile for the Balaton Region. Organisation and networking of private operators is barely beginning and promotional efforts remain modest, largely overshadowed by lakeshore tourism marketing. Nonetheless, rural tourism products and activities lie at the core of a modernisation process which has started in the Region as well as on the national level. It is the declared aim of the National Tourism Development Strategy (NTDS), to promote rural tourism as a long term perspective for rural regions and as a competitive new product to attract foreign guests (time-frame until 2013) (Hungarian Tourism Committee, 2005).

1.3.5 Spatial distribution and tourist profiles

107. Since the economic sector of accommodation in Balaton makes up for 7.4% of the region's net revenues in 2002 (+0.7% since 1997) and about 7% of regional employment, it is useful to examine how this income is spatially distributed (Hungarian Central Statistical Office, 2003). The private accommodation providers registered 1 872 million guest nights. This figure represents a 14% year-to-year decrease in the LBRA as a whole, but on the other hand the so called background municipalities (those without Lake Balaton shoreline) registered an 8% increase (see Table 9).

Table 9. Guest nights in the LBPRD and in Hungary

Guest nights in 2002 in the LBPRD and in Hungary				
<i>Hotels</i>	Lake-side	Non lakeside	LBRA total	National total
Mean residence time days	4.2	4.7	4.3	2.9
Foreign guests	5.4	7.3	5.4	3.1
<i>Other commercial accommodation</i>				
Mean residence time, days	5.3	5.7	5.3	3.2
Foreign guests	6.9	8.6	6.9	4.8
<i>Private accommodation providers</i>				
Mean residence time, days	5.7	6.8	5.8	5.5
Foreign guests	6.3	8.1	6.4	6.2

Source: CSO

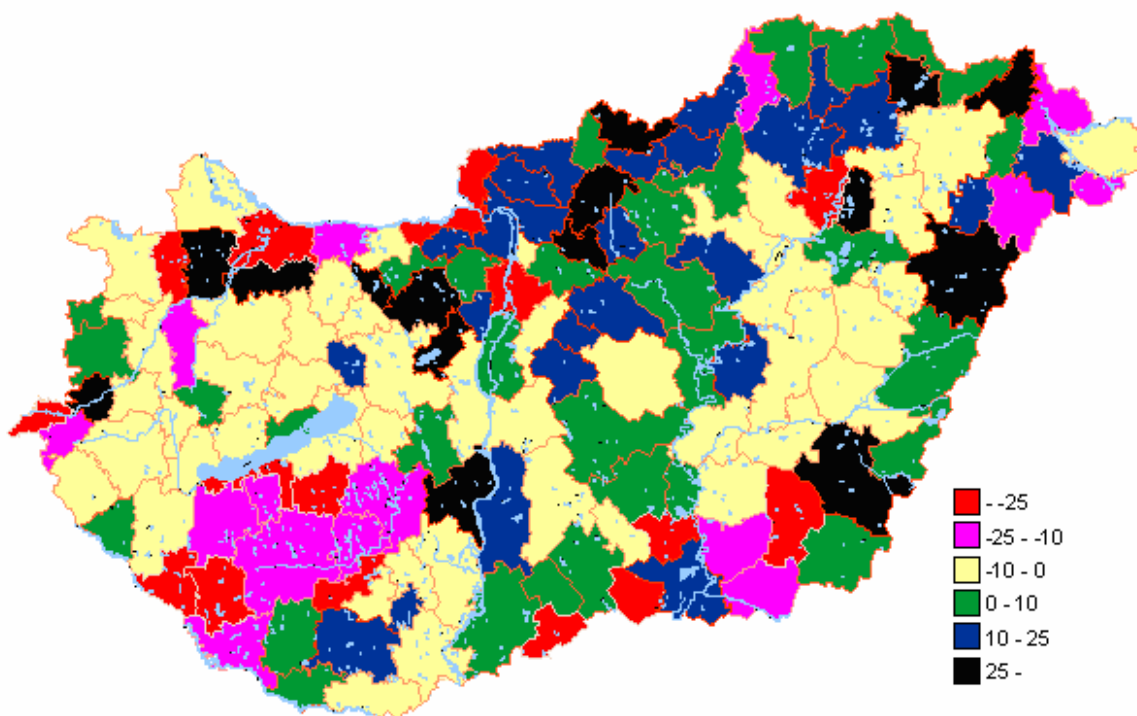
108. The division between lake side communities and municipalities of the hinterland shows that less than 10% of the total guest nights benefit the hinterland communities. Ninety-two per cent of guests stayed at lake side municipalities in 2003. However, tourists stay longer in the background destinations than they do at the lake front. This means better profitability for the operators of accommodation facilities because of lower overhead costs per guest. Also, private accommodation facilities, located mostly on the lakeshore, are suffering the most at the moment from the decrease in foreign tourism (Business in Hungary, March 2003).

109. In 2003, GKI Economic Research Co. (Budapest) conducted a study on the level of development of tourism in Hungary. The so-called “statistical small regions” (NUTS IV statistical units, SSRs hereafter) were selected as spatial units for the analysis. The tourism to a specific SSR was categorised according to the solvency of tourists visiting the region. In this way, “lower solvency tourism” (*i.e.*, mass tourism) and “higher solvency tourism” (*i.e.*, quality tourism) were created, and the SSRs were evaluated based on their advance or retreat in the two categories in the period of 1997-2001. (Lower solvency tourism shows strong correlation with guest nights in camping, youth hostels, etc., while higher solvency tourism in higher level accommodation such as three- and four-star hotels.) (Hungarian Central Statistical Office, 2003)

110. The national ranking of NUTS IV micro-regions shows a region-wide loss in lower solvency tourism at Lake Balaton compared to national development (see Figure 19). Lake Balaton is drifting away from its leading position in Hungarian mass tourism compared with other regions of the country from 1997-2001. Since this segment represented the predominant type of tourism in the Region, it is most affected by the market trend away from mass tourism, global competition and changes of travel opportunities in the new Europe.

Figure 19. Changes in terms of lower solvency tourism in Hungary 1997–2001

In %



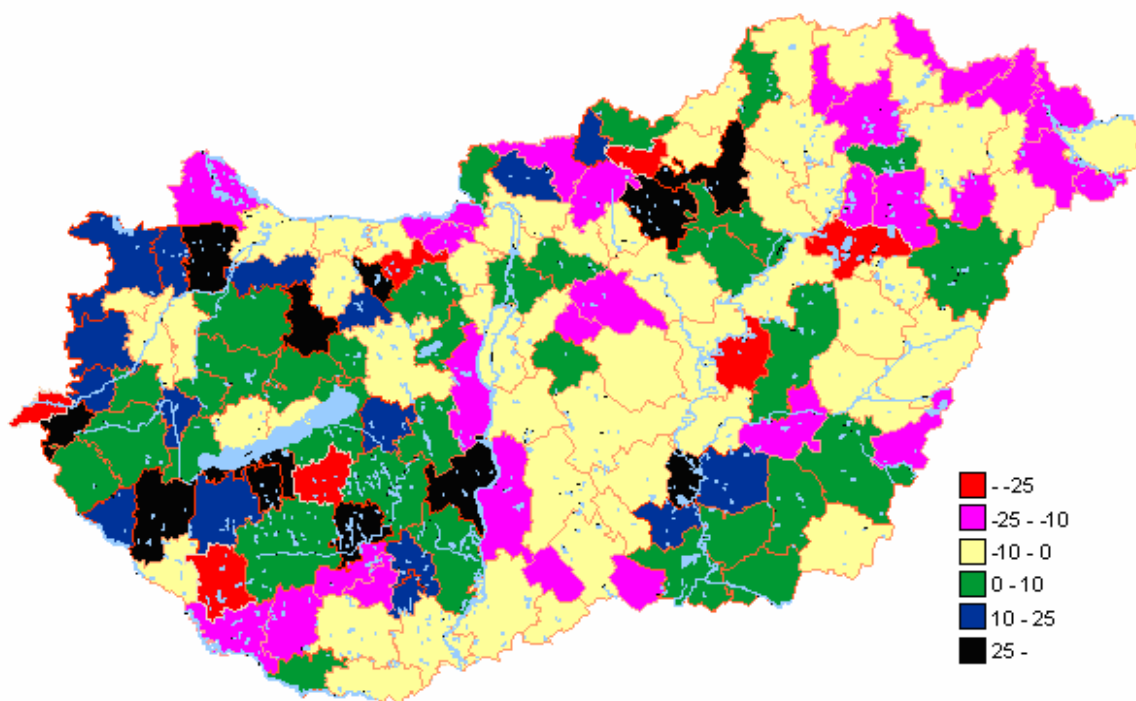
Note: In this figure, red means most advancement in the ranking and black means most retreat.

Source: GKI – Economic Research Co., 2003.

111. For the upper segment of quality tourism the opposite happened (see Figure 20). The NUTS IV regions of the south-east show gains in higher solvency tourism. However these figures should not be over interpreted. The total capacity in this segment had been low compared to mass tourism facilities. The investments in the spa sector probably have been sufficient to make up for these gains.

Figure 20. Changes in terms of higher solvency tourism in Hungary 1997–2001

In %

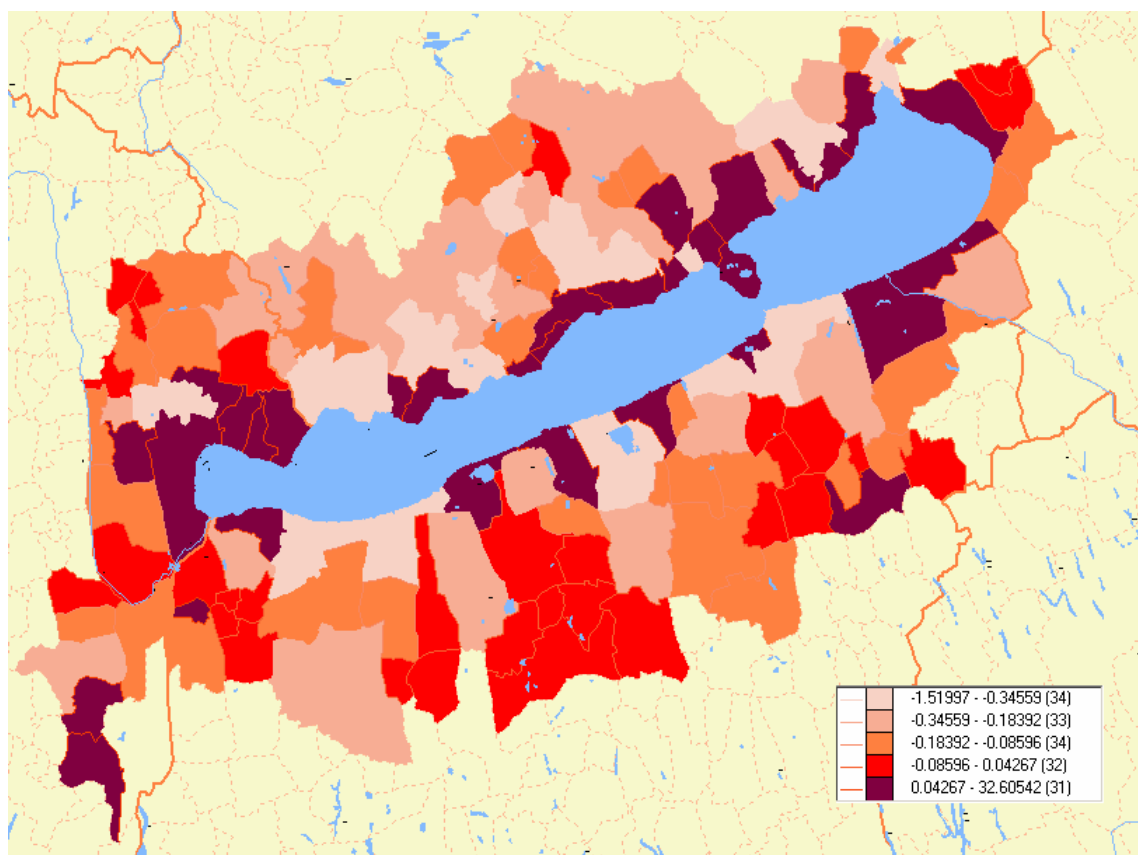


Source: GKI – Economic Research Co., 2003.

112. Looking at the spatial dynamics within Lake Balaton Region one can see, that on the level of municipalities forces of concentration are at work in both the lower solvency and the higher solvency tourism sector. Cheap accommodation relative to other municipalities gains ground in traditional tourist centres like Siófók, Balátonfüred and Badacsony, but also in western municipalities like Keszthely and Hévíz and Zalakaros and the entire Kis Balaton area (see Figure 21).

113. This does not necessarily mean that there is an increase in low budget tourism but at least the losses there are less dramatic than in some south shore and “hinterland municipalities”. Those have also considerably lost in most of the northern "hinterland" but some have gained ground in the southern background area. One reason for this shift to the south west might be accessibility by air (Sármellék airport). Another and more important reason might be the positive impact of spa tourism investment towards the general living environment.

Figure 21. Changes in terms of lower solvency tourism in Balaton 1997–2001

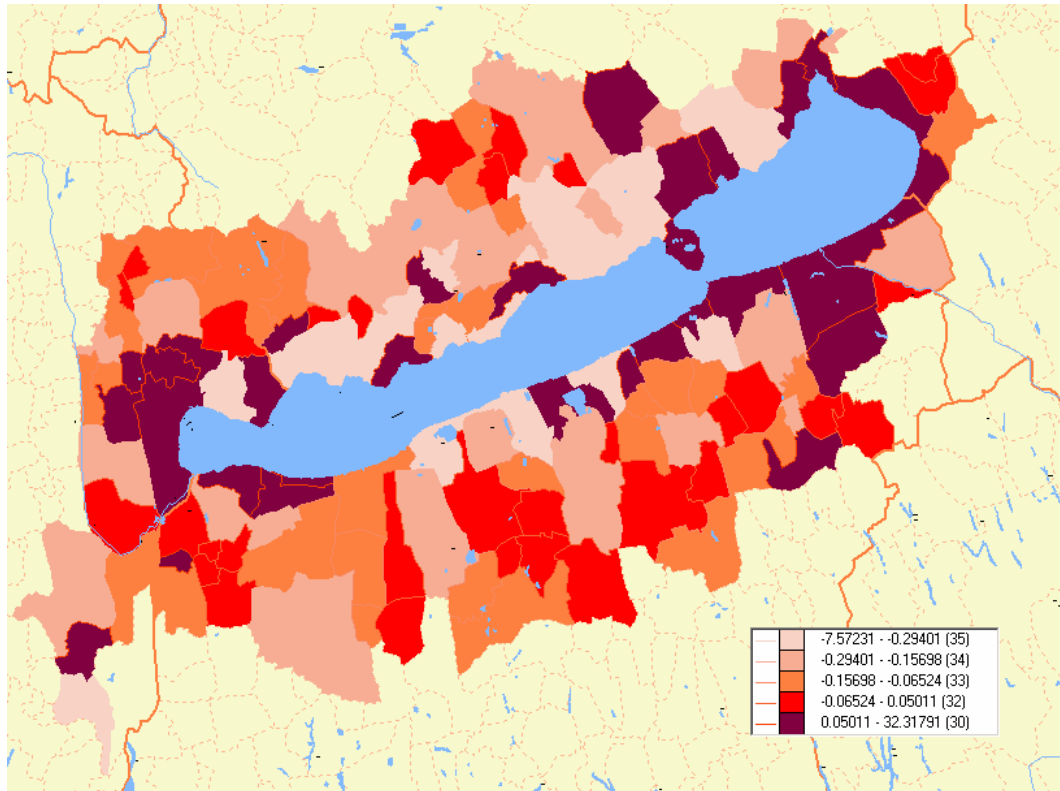


Source: GKI – Economic Research Co., 2003.

114. Higher solvency tourism is also concentrating in spa centres and in traditional tourism lake side municipalities (see Figure 22). Most of the “hinterland” communities have lost shares towards the more successful municipalities mentioned above but some of them have slightly gained, mainly in the south. The figures should be interpreted cautiously: The spatial analysis is based on available accommodation units, saying nothing about guest nights spent in them. Two trends however seem to be prominent:

- On the lake there is a spatial concentration of tourism in general towards some prime destinations at the lake and towards spas.
- Background municipalities do not gain prominently in either category – most are still losing against the above mentioned destinations. Segmentation is no longer taking place between “hinterland” and “lake side” – but between “hinterland” and “prime lake side”.

Figure 22. Changes in terms of higher solvency tourism in Balaton 1997–2001



Note: Colour categories contain equal number of elements (municipalities). Darker colour means higher score.

Source: GKI – Economic Research Co., 2003.

2. Territorial development policies

2.1. National policies

2.1.1 Regional development policy

2.1.1.1 Actors and guidelines

115. Hungarian regional development policy progressively evolved during the transition period so as to be in conformity with the requirements of the *Acquis Communautaire*, in particular adopting a regional development framework permitting programming and implementation of EU structural funds. Seven NUTS II regions were decided for this purpose by the 1996 Act on Regional Development. A new agency, the Hungarian Office for Territorial and Regional Development, placed under the responsibility of a State Secretary for Regional Development, was set up at the beginning of 2004. Since 1 September 2005 the National Office for Regional Development (NORD) replaces the latter. NORD shares with the National Development Office, in charge of the elaboration and implementation of the National Development Plan (NDP), and the ministries of the Economy and Transportation on one hand and the Ministry of Agriculture on the other, the responsibility of EU funding and programming. Co-ordination in this area is

ensured by the State Secretary in charge of EU affairs also overseeing the NDP process, whereas the State Secretary in charge of regional development and convergence, through NORD, promotes regional development policy, co-ordinating with sector ministries.

116. The mission of NORD covers not only regional development but also town and country planning, providing direct technical expertise to local authorities, ensuring that major strategic choices in the area of spatial development and land use are in conformity with the broad guidelines of the NDP, in the formulation of which it participates. The Office is associated in the definition of main sector policies (infrastructure, agriculture and rural development and the environment in particular) with impact on territorial development. Lastly, it manages PHARE and INTERREG programmes. To perform its tasks, NORD disposes of two public companies: VATI Kht and Regional. Development Holding Rt. VATI (staff of 250) is entrusted with tasks in territorial development, city and town planning, the development and protection of the built environment. The company operates a regional information system and draws up development plans and pilot studies at county and regional levels. The Regional Development Holding Rt and its subsidiaries support the implementation and financing of development projects by providing advice and training as well as support for tenders. Services are focussed on innovative SMEs, local government and its associations within the broader framework of the operational plans within the NDP. Lastly the Brussels Office for Hungarian Regions is a non-profit organisation financed and supervised by NORD to support the lobbying of Hungarian Regions and local governments in EU institutions.

117. NORD is in charge of the Operative Programme for Regional Development (OPRD), one of the five measures of the National Development Plan.¹⁵ The programme primarily complements sectoral programmes from a territorial development perspective, taking into account the specific needs of different regions. The 2004-2006 OPRD is based on the following medium-term objectives:

- strengthening the economic potential of lagging regions;
- leveraging natural treasures and cultural heritage for tourism;
- developing attractive town environments;
- creating sustainable communities.

2.1.1.2 Regional policy evolution

118. Hungary's regional policy is based on Act XXI of 1996 on Regional Development and Physical Planning, amended in 1999 and 2004 and on the National Regional Development Concept (NRDC) approved by Parliament in 1998. The strategic objectives of national regional policy are to create a more balanced spatial structure by reducing countrywide territorial disparities, in particular those between Eastern and Western Hungary and by mitigating the Budapest centred spatial structure by developing growth poles at the regional level. Innovation at the regional level by networking with knowledge centres and better utilising natural resources in tourism areas and those under environmental protection are amongst the main areas of policy focus, with direct relevance to the features and concerns of the Lake Balaton area to be noted. The NRDC is to be revised every six years and the new concept, presently under discussion, together with the National Development Concept (NDC), will constitute the reference for the forthcoming 2007-2013 programming period.¹⁶

119. The 2004-2006 Operational Programme for Regional Development aims at the development of economically and socially underdeveloped areas and parts of settlements within regions. The Operational Programme intends to promote this development in particular by improving the economic environment, supporting the educational infrastructure and promoting the human resources that assist economic

development, developing regional infrastructure and rehabilitating settlements. Table 10 shows the indicative financial allocations to each Operational Programme (and Fund), in accordance with the financing table of the Community Support Framework (CSF). OPRD is allocated 18.1% of scheduled funding, compared with a maximum of 28.20% (human resources) and a minimum of 15.89% (agriculture and rural development). In fact the real level of funding with direct territorial development impact is higher than the percentage for OPRD would seem to indicate, as many measures within ARDOP (see further) benefit territorial development in rural areas.

Table 10. Financial breakdown of funds by Operational Programme

		ERDF	ESF	EAGGF	FIFG	% of total
ECOP	429 009 213	429 009 213	0	0	0	21.50
ARDOP	317 218 750	0	0	312 828 868	4 389 882	15.89
HRD OP	562 822 687	177 381 752	385 440 935	0	0	28.20
EIOP	327 245 758	327 245 758	0	0	0	16.40
OPRD	359 420 752	305 744 465	53 676 287	0	0	18.01
Total	1 995 717 160	1 239 381 188	439 117 222	312 828 868	4 389 882	100.00
% of total		62.10	22.00	15.68	0.22	100.00

Source: CSF.

120. For the 2007-2013 programming period a holistic approach will be taken, with integration of EU and national funding programmes into an overall vision (so-called "Europe Plan"), thereby ensuring better co-ordination. The second NDP – followed by the main objectives of the NDC – will provide the framework for EU funding allocation within this broader framework. This "Europe Plan", aiming to co-ordinate regional and sectoral activities, in particular for the development of rural areas, will rest on the following four pillars:

- Economic and social cohesion by focus on the competitiveness.
- Human-resource development by focus on lifelong learning and innovation responding more directly to the needs of the labour market.
- Territorial and regional development by focus on space-based development in special areas, like the Lake Balaton, Tisza-river, Danube-river; on territorial co-operation in the border areas; on decentralised regional development in the seven NUTS II level regions.
- Sustainable development by focusing on the long term impact of major projects.

2.1.1.3 Regional development policy tools

121. In its efforts to develop a sub-national structure of government, Hungary is devoting substantial resources that are increasingly channelled through several regional development efforts. The system of financial instruments for regional development involves most ministries of government because of its comprehensive nature. However, several direct support measures for regional development were developed that did not go through other ministries. This decentralisation of regional development funding commenced in 2004 through the Minister without portfolio, responsible for Regional Development as well as several

programmes under the responsibility of the Ministry of the Interior, since that ministry is responsible for local government matters. The following direct measures in support of regional development are:

Minister responsible for Regional Development:

- Targeted Appropriation for Spatial Development (TFC);
- Appropriation for Regional and Settlement Realignment (TTFC) as from 2003;
- Appropriation for Supporting Micro-Regions (KITA);
- Appropriation for Supporting Enterprise Zones (VÖCE).

Ministry of the Interior:

- Support for Promoting Spatial Balance (TEKI);
- Targeted Decentralised Appropriation (CÉDE).

122. The *Targeted Appropriation for Spatial Development (TFC)* was created by the Act on Regional Development and Spatial Planning. As from 1996, funding has been gradually decentralised to the county level. From 2001 onwards, the regional level has gained a key role in the use of funds. Parallel to EU support provided by PHARE (Economic and Social Cohesion), the so-called "mirror region support systems" were financed by the TFC. The TFC provides support for business-related infrastructure and employment generating investment, local government and the non-profit sector, human resource development and development of local communities. Support for Promoting Spatial Balance (TEKI) and the Targeted Decentralised Appropriation (CÉDE) are decentralised at county level and primarily provide financial support for communal infrastructure developments of local authorities.

123. Table 11 shows the relative significance of these direct programmes in support of regional development policy and their duration over the 1998-2003 period.

Table 11. Financial allocations to "direct" instruments of regional development policy in Hungary

In billions HUF

Financial instrument	1998	1999	2000	2001	2002	2003
TFC	10 801.5	11 600.0	11 033.6	15 768.5	19 268.5	7 600.1
TTFC						12 000.0
KITA						2 000.0
VÖCE						1 000.0
TEKI	9 000.0	1 000.0	10 900.0	10 573.0	10 573.0	10 573.0
CÉDE	4 000.0	6 000.0	6 540.0	6 300.0	6 300.0	6 300.0
Total (billion HUF)	23 801.5	18 600.0	28 473.6	32 641.5	36 141.5	39 473.1
Total (mln EURO)	93.7	73.2	112.1	128.6	142.3	155.4

Source: LBDCA 2005.

2.1.2. Rural development policy

2.1.2.1. From agricultural to rural development

124. The Agriculture and Rural Development Operational Programme, 2004-2006 states as the aim of Priority III.3 (Development of Rural Areas):

“The main objective of the priority titled “Development of Rural Areas” is to promote the realignment of rural areas. Within this to reduce the economic and social disadvantages in rural areas; to improve the quality and conditions of life and income positions of rural population; and, as a result, to diminish the ageing and depopulation of small settlements, the further deterioration of human potentials, *i.e.*, their migration to (urban) areas with better infrastructure facilities, and the further erosion of the landscape and the image of the rural world.”

125. The agrarian transformation common within much of the rest of the developed world and accomplished there during the latter part of the 19th century and the first half of the 20th century was still underway in rural Hungary during the 1990s. Under the socialist controls of the past, rural-urban migration was restricted, notwithstanding the adoption of labour saving technology in agriculture. Thus it was that many large agricultural co-operatives had industrial plants in addition to their farming operations in order to employ surplus rural labour. Because of the demise of socialism and the necessary land-reform in the late 1980s and early 1990s, the structure of farming in Hungary went through massive change. First, the land reform privatised about 2.7 million hectares of collective and state-owned land into the ownership of about 1.5 million people. In 1991 there were a total of 1 396 000 individual farms with 1 257 000 of them of less than 1.0 hector in size. From 1991 to 2000 approximately 580 000 farms of less than a hector ceased to exist as distinct farming operations (ARDOP, 2004).

126. Whether this demise of well over a half a million farming enterprises represents that number of jobs lost from agriculture in the decade of the 1990s is not known. Even an apples and oranges comparison of 0.58 lost farming operations within a society of 10.0 million population ($0.58/10.0 = 0.058 = 5.8\%$) suggests that there was great economic dislocation and transformation in rural Hungary during the last decade of the 20th century.

127. In the face of this recent rural transformation, the measures seen as necessary to achieve the government’s rural development objectives are:

- expansion of rural income earning opportunities;
- development and improvement of infrastructure connected with agriculture;
- renovation and development of villages and protection and conservation of rural heritage;
- support to Leader + , with its specific dimension of encouragement to local initiative.

128. Leader-like programmes¹⁷ were started as experimental programmes in anticipation of Leader + in 2001 immediately after Accession to the EU with a budget of EUR 1.7 billion. Each of 14 local initiatives selected from among 40 applicants received approximately EUR 120 000 in support. The experiment which was terminated in August 2004 indicated scepticism on the part of rural people about the process because of their own limited resources to commit to the projects. This resulted in much less activity at the local level than was hoped for. Clearly the lack of local experience and capacity to undertake collaborative projects including administrative experience was a major explanation for the limited success of the experiment. Notwithstanding these difficulties, some 272 local projects were undertaken by the

14 Local Action Groups. Considerable experience was gained at all levels through the experiment and resulted in a growing interest in the forthcoming Leader + initiatives.

129. Hungary has made some preparations in anticipation of support from EU Leader + resources. Under the Act of Accession into the EU two types of activities are permitted, namely the acquisition of skills and the adoption of pilot projects prepared by local action groups that adhere to EU Leader + principles. Hungary has chosen to implement both activities within the Leader + measure of its Agriculture and Rural Development Operational Programme. The first training programme was scheduled to start at the end of March 2005; the first round of selection of pilot projects will take place in December 2005.

2.1.2.2 Rural tourism policies

130. Rural tourism is one of the main priorities of tourism development in many European countries, including Hungary. The market for rural holidays is growing. Guest nights in Hungarian rural tourism classified accommodation facilities increased from 431 272 in 1998 to 575 530 in 2002 nation wide (CSO and National Federation for Rural and Agro Tourism Hungary, 2003). Rural tourism is an appropriate tool to revitalise the declining rural areas and to ensure their sustainable future by job retention or even job creation, increased job diversity, service retention, farm support, broadened cultural provision, landscape and nature conservation or the maintenance of rural arts and crafts as tourist attractions. Rural tourism often provides an incentive (and part of the necessary funding) for infrastructure development, which then contributes to the growth of other economic activities in rural areas. For these reasons, rural tourism support measures are usually integrated into rural development policies under responsibility of the ministry in charge of Agriculture, requiring adequate co-ordination with broader tourism policy goals.

131. Rural tourism hardly consists of one product available at one place, but of a range of experiences and opportunities to be offered to the guests. Therefore a comprehensive concept for a given area can facilitate concerted action and cooperation among different rural players in various fields. Regional assets like museums, castles and cultural events need to be enhanced or created. Regional infrastructures like cycling, walking and riding paths have to be built and maintained, requiring co-operation of municipalities, communities and the state. To develop such single and multiple experiences into bookable packages, it needs a well co-ordinated product and quality management scheme, similar to the example of Basilicata provided in the box below.

132. Experience in communal and inter communal planning also shows that a culture of co-operation needs to be introduced and to be institutionalised, before new developments can be contemplated. In order to create a favourable environment for rural communities to take part in this kind of tourism an integrated regional strategy is required. Since rural tourism addresses NGOs, family enterprises and municipalities, by definition non-professionals in tourism, such a strategy needs to include measures for capacity building in human resources. Adequate networking is also required, particularly for marketing, usually through a national organisation. In Hungary, this would be the case of the Hungarian Federation of Rural and Village Tourism, member of the European "Eurogites" federation which provides an information platform for providers and customers of rural tourism accommodation and services and their associations.

2.1.2.3. Micro-regions and local strategies

133. In different countries, efforts are being made to encourage the creation of small functional areas to devise and implement local strategies and projects and/or to create a framework for co-operation in public service delivery. On the other hand such small entities need to attain critical mass to dispose of sufficient resources and be able to carry sustainable projects. Recent policy trends in Hungary have sought to pursue the development of micro-regions (see 1.1.1) so as to stimulate local initiative while addressing the issue of critical mass. This new policy approach, supervised by the Ministry of the Interior and with the

co-operation of NORD aims to strengthen local initiative and achieve economies of scale in small rural areas (see Box 1). Government decree 65:2004 (IV 15), concerning the creation of multifunctional micro-regions, develops an incentives framework for this purpose, including requirements of size and co-operation for public service delivery. Of the three first such micro-regions in Hungary, one (Marcali) is partly located in the LBPRD, as analysed in 3.4.

Box 1. Multi-functional micro-regions in Hungary

Two types of micro-regions existed in Hungary up to 2004:

- "Statistical" micro-regions designed in a top-down approach, which exercise local development tasks through their Development Councils.
- Voluntary micro-regions bringing together several municipalities willing to join their development efforts in a bottom-up approach, but often too small and lacking capacity to design and deliver sustainable projects.

Government decree 65:2004 (IV 15) seeks to conciliate these two types of micro-regions by creating "Multi-functional micro-regions". Two original features characterise the new policy: strong incentives to develop critical mass and inclusion of public service delivery in the co-operative scheme, the two features being combined in the following fashion:

- A maximum incentive of HUF 80 to 120 million per micro-region is granted if the entity coincides with the boundaries of a statistical micro-region, that at least three public services (primary education, health care and child care) are to be jointly delivered and that territorial development tasks will be carried out in common for at least three years.
- A lower incentive (HUF 20 to 50 million, depending on the population) is granted if only half of the settlements within a statistical micro-region (or at least 60% of the population) are members of the new association, if at least two public services will be jointly operated (one of them being primary education) and that territorial development tasks will be undertaken on a common basis for a minimum of three years.

In all cases, the new association must develop a "Partnership agreement" that formalises co-operation over a three-year period, providing in particular for the set-up of common management. A territorial development concept for the micro-region is to be defined and the association's executive body, acting as a micro-regional development committee, monitor's its implementation. A compulsory financial plan serves as basis for project development. Lastly, the association co-ordinates between other government levels and NGOs.

Source : OECD and National Office for Regional Development.

2.1.3 National tourism policies

2.1.3.1 The socialist heritage and recent evolutions

134. During the communist era Lake Balaton became the "Hungarian bath tub". This was central government's tourism policy, which favoured mass tourism. Also western travel markets were dominated by mass tourism at that time. The family-beach-holiday at Mediterranean sea-shores was a "cultural" institution of European post war societies. In particular East German tourists were attracted to the Balaton holiday destination in Hungary and today, visitors from Eastern Germany still represent the largest group of foreign tourists in Lake Balaton.

135. The political changes of the 1990s sparked private initiative and new ideas for decentralised regional development. Framework conditions remained nonetheless unclear in terms of co-ordinated planning and funding of new concepts for tourism and there were few ideas about how to cope with a globalising tourism industry. When tourists from the west arrived, they found the country exceptionally cheap and interesting, during the few first years. In the context of EU membership, new structures and forms of regional tourism planning and governance were introduced but these policies, however, had no bearing on the decline of numbers of tourists corresponding to worldwide tourism trends and changes in customer expectations, particularly in Europe.

136. The Széchenyi Tourism Development Programme, formulated as a sub-programme to the Széchenyi National Development Programme (2000-2004) reflects conceptual changes in tourism policy. The following objectives were set for the development of tourism:

- increasing the effectiveness of cross-border tourism by the development of specifically Hungarian but internationally competitive tourism-related products, and raising the standard of service provision;
- increasing sector stability through the strengthening of domestic tourism;
- applying development trends and methods that eliminate possible negative effects on the natural and cultural environment;
- expanding the traditional image of Hungary, characterised by the three words "Puszta, Piroshka, Paprika", and its partial replacement with other elements of the Hungarian cultural heritage;
- encouraging visitors from other countries besides the traditional tourists to Hungary.

2.1.3.2 Tourism policy framework

137. Tourism policy is formulated by the National Tourism Authority, under the authority of the Minister without Portfolio responsible for Regional Development and Tourism since October 2004,¹⁸ which should facilitate integration of territorial development and tourism strategies. The minister has an advisory board on the national level: the National Tourism Committee, comprising representatives from regional tourism committees and the major professional tourism organisations (Hungarian Hotel Association, Association of Hungarian Tour Operators and Travel Agencies, Hungarian Tourism Association, National Association of Villages and Agro Tourism).

138. The commercial twin to the National Tourism Committee is the Hungarian National Tourist Office, overseeing a marketing agency, the Hungary Tourism Promotion Company.¹⁹ As the above-mentioned national committee, the company maintains regional offices, in particular in the Balaton region. It is entrusted with the following missions:

- to raise international awareness about Hungary as a tourist destination;
- to contribute to the conservation of natural and cultural heritage;
- to encourage improvement of quality in tourism;
- to market the countries products in Hungary and abroad;
- to encourage local co-operation in term of tourism marketing.

2.2. Lake Balaton Strategic Development Programme

2.2.1 Strategic Development Programme for 2002-2006

139. According to the Act on Regional Development and Land Use Planning, "Territorial Development Councils are to make proposals concerning the regional development strategy and programmes with regard to the area of their jurisdiction". The LBDC prepared in 1999 its Long-Term Regional Development Concept (12 years) that was subsequently approved by the Government (Government decision 2153/2002 [V.15]). Referring to this document the LBDC prepared and approved the "Strategic Development Programme (SDP) of the Lake Balaton Area" in 2001. The SDP provides a comprehensive and integrated development strategy for the five-year period between 2002 and 2006. According to the vision outlined in the long term regional development concept, the region should be developed into a resort region offering a wide choice of leisure time facilities of high-quality standards for both Hungarian and foreign tourists even outside the main tourist season. It is to be noted that this vision contains in a nutshell the principles of diversification of products, high quality (departure from mass tourism) for all tourists and seasonal extension. On the other hand there is no specific mention of rural tourism meaning that the hinterland is not specifically targeted, although reference to a "wide choice of leisure time facilities" could encompass this.

140. In order to bring this vision to fruition, focus is put on the ecological balance of the lake and on human resources development based on accomplishment of the following five strategic objectives:

- creation of favourable and permanent environmental conditions;
- broadening the range of business opportunities;
- improvement of the accessibility and infrastructure of the region;
- increasing the pool of human resources;
- improving the levels of cooperation between regional stakeholders.

141. The five strategic objectives comprise 21 measures divided into 106 programmes. This constitutes a complex array of measures, with certain sub-programmes falling outside direct competence of LBDC. This is the case of sectoral programmes funded directly by the government and those covering a wider geographical area such as environmental protection and water management relating to the whole watershed. The individual components of this strategy, however difficult to bring together, were prepared on the basis of a wide consultation of NGOs and experts so one can assume that it reflects the consensus of at least a majority of organisations and inhabitants more specifically concerned with lakeside development.

142. Estimation of funding necessary for accomplishment of these goals over the five-year period is of HUF 390 billion (EUR 1.6 million). In line with the above, financial resources are to be drawn from multiple sources, bringing forward questions of management, readability, accountability, evaluation and monitoring. In short, in the face of so many channels for decision making and financing, how can efficiency and transparency be attained? Without challenging the good-will of the different actors, the answer to this question remains open to debate. In the meantime strong co-ordination is required by the LBDC to assemble and harmonise funding and funding practice by six different categories of stakeholders:

- LBDC, with its own resources, themselves negotiated with the central government;
- The central government with the national budget (as many sources as there are sector ministries);

- The NUTS II level regions (3);
- The NUTS III level counties (3);
- The EU (pre-accessions funds, structural funds...);²⁰
- The private sector.

143. A pre-condition for the implementation of this programme is that the Council itself should dispose of an average annual budget of HUF 6 billion (more than EUR 25 million) on the basis of planned financial resources to implement the strategy. It seems that this is far from being the case and that, as developed in the following section, commitments to the strategy from other sources also fall very short of stated objectives.

2.2.2 Proposed development targets 2007-2013

144. For the period between 2007 and 2013, the Lake Balaton Strategic Development Programme will be renewed by reference to the second National Regional Development Concept, presently under discussion and which should be finalised around the last quarter of 2005. The renewed NRDC will pursue the goals of a harmonised and sustainable spatial structure, organically and effectively incorporated into the European spatial structure while being predominantly based on competitive regions and areas comprising a well balanced settlement system. Referring to these broad guidelines, development targets entirely focused on tourism and protection of the natural and built environment have been proposed for the Lake Balaton Region considered as a special analytical territorial unit, aside the seven normative territorial units at NUTS II level. It is to be noted that these overarching targets do not specifically mention human resources development or the specific needs of the rural hinterland but future measures addressing these two issues could well be based on the general framework that comprises:

- the establishment of conditions for quality tourism;
- the protection and improvement of the ecological conditions and water quality;
- a territorially differentiated planning of the tourism image;
- the lengthening of the tourism season;
- the territorial diffusion of tourism;
- the prevention of further construction and the promotion of landscape rehabilitation;
- restrictions on environmentally unfriendly agricultural activities;
- active landscape protection of the Balaton Uplands;
- the establishment of nature protection and landscape endowment-based management methods;
- the development of a transportation network compatible with environmental protection;
- a high emphasis on the protection of cultural heritage.

2.2.3 Relevance of rural policy to Lake Balaton conditions

145. The Lake Balaton area is definitely rural, as demonstrated above. The majority of the area within the Lake Balaton Priority Recreational District falls within micro-regions (NUTS IV) that are either predominately rural or significantly rural under the previously indicated OECD typology. Indeed, it is the intent of the Hungarian Government that Lake Balaton not only become an economic engine for tourism in the nation, but that it more immediately, in both time and space, address the problems of space-based regional and rural development in the Lake Balaton area. Thus all of the national space-based and rural development objectives identified above – expansion of rural income earning opportunities; development and improvement of infrastructure connected with agriculture; renovation and development of villages and protection and conservation of rural heritage; and Leader programmes are consistent with the needs of the Lake Balaton area.

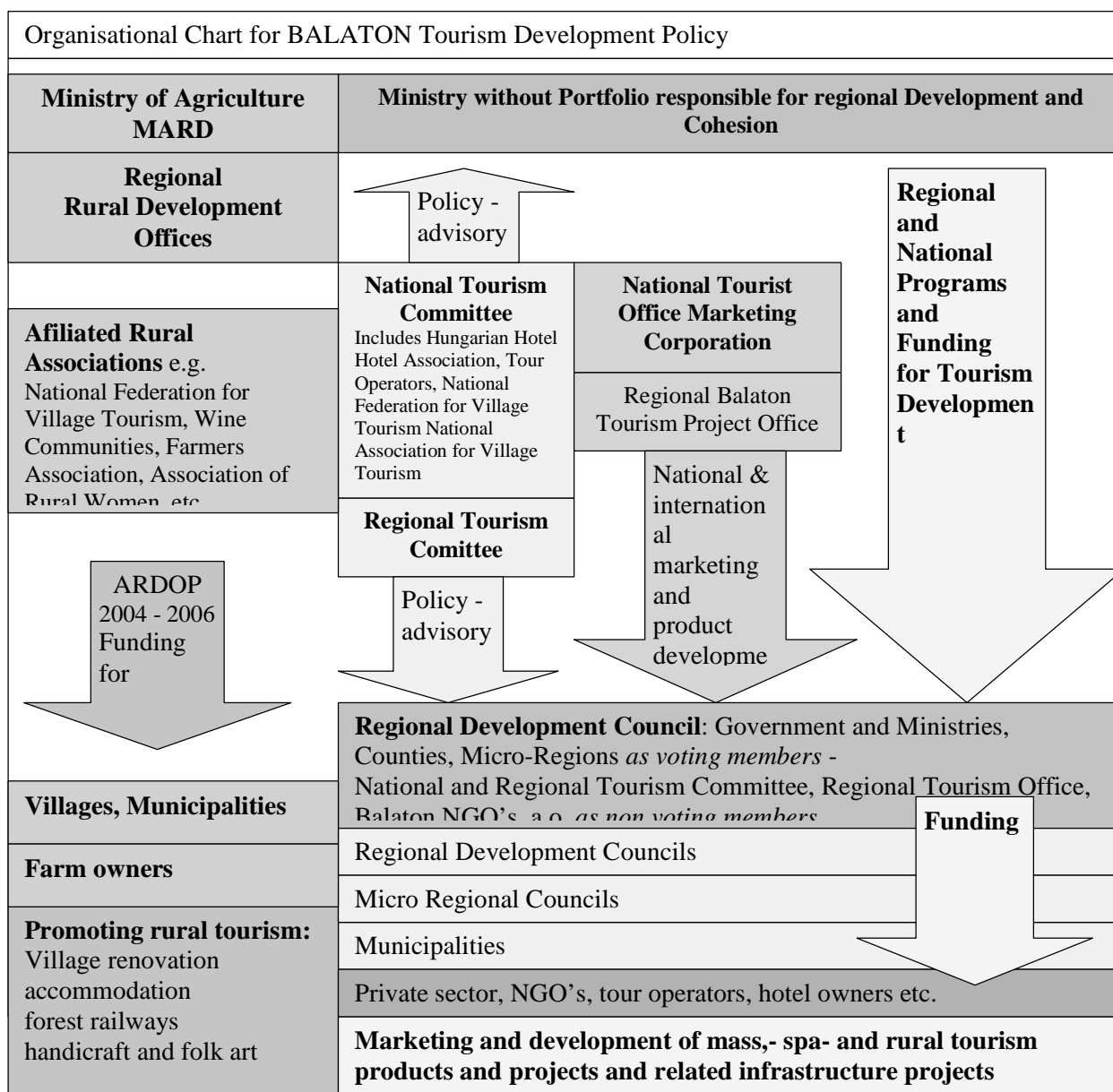
146. However, special considerations with respect to agriculture are required in the Lake Balaton area. Because of the fragile ecology of the lake, agricultural development alternatives that might be viable elsewhere cannot be considered because of the potential for non-point pollution from agricultural chemicals and animal wastes. Those environmental considerations are a major part of the maintenance of the tourism infrastructure as well as that for agriculture. Sewage, waste water treatment, and waste management are major development and economic issues in the area. A bad or low water season spoils the tourist trade for that season and can affect subsequent seasons as well. Tourism development policies and infrastructure investment thus have a direct impact on rural development in the Balaton area.

2.2.4 Tourism policy in Lake Balaton

147. The Lake Balaton Development Council remains the overall regional planning and co-ordinating organ of the Lake Balaton Priority Recreational District (LBPRD). Within the LBPRD tourism issues are brought forward by representatives from the Regional Tourism Committee and the Balaton Regional Tourism Project, as non voting participants. The Balaton Regional Tourism Committee, regional bureau of the state's Tourism Committee is responsible for the development of the region's tourism policy, tourism development concept and plans, and the related implementation programmes, in line with national tourism policy. For implementation matters, the Committee collaborates with County Development Councils and local governments, commercial chambers, trade organisations, the Association of Village Tourism, regional development councils, counties and local tourism agencies and municipal tourist offices. Furthermore, the Committee co-ordinates non-profit marketing, product development and information activities.

148. The Balaton Regional Tourism Project Office, one of the regional representations of the Hungary National Tourism Promotion Company, is responsible for communication with local tourism providers and regional organisations, the elaboration of regional marketing, and the restructuring and development of tourism products. Tourism is also an issue at the level of Micro-Regional Development Councils and County Development Councils, since Mayors and representatives from commercial and social institutions are members of these organs. The same applies to municipalities which have their own particular interests in tourism development – depending on their tradition and present state of tourism development and economic structure. Figure 23 highlights the complex pattern of tourism decision making and co-ordination in the LBPRD.

Figure 23. Balaton tourism policy actors and processes



Source: FUTOUR.

149. The legal framework on which the Lake Balaton Priority Resort District (LBPRD) is based is Act XXI on Regional Development and Physical Planning (1996). This law defines a prioritised region as follows: "a territorial unit covering one or more counties (or the city of Budapest), or specific section(s) thereof, to be administered as a single unit for social, economic or environmental purposes, and also for planning and development to best represent the interests of the nation or some other objective defined by law (greater metropolitan area of Budapest, designated recreation areas, nature conservation areas and national parks extending over various counties, border and other unique regions)".

150. Measures taken to promote tourism and quality of tourism in particular are interwoven with most themes in regional planning and therefore relate to a broad concept of regional development. There is no single legal framework to be identified and singled out for policy analysis but spatial analysis of tourism development refers to the institutional and legal framework underlying the concept of the Lake Balaton Priority Resort District. However a regional tourism policy, as an outline of specific interests and aims for the sector's development was formulated as early as 1993. The Balaton Tourism Development Concept was prepared in 1993, with the intention of identifying long-term development opportunities and objectives. This Concept was the first regional tourism development plan since the political change but it was never officially approved. Its objectives were: "to develop a range of tourism products (wine tourism, equestrian tourism, nature tourism) for the area and to emphasise the image of a "children's paradise".

151. The Balaton Regional Tourism Committee was formed in 1998, and one of its first actions was aimed at setting up a development programme. Due to the lack of central approval however, the tender for a development programme was issued only in early 1999. By 2000 a Regional Tourism Development Programme formulated by the Regional Tourism Committee aimed to assist in implementation of the Balaton Tourism Development Concept in the medium-term. Based on the long-term tourism development objectives and principles, this development programme identified concrete development responsibilities for the 2000-2006 period, in line with the Strategic Development Programme of the Lake Balaton Region. Different types of measures were adopted within the development programme so as to:

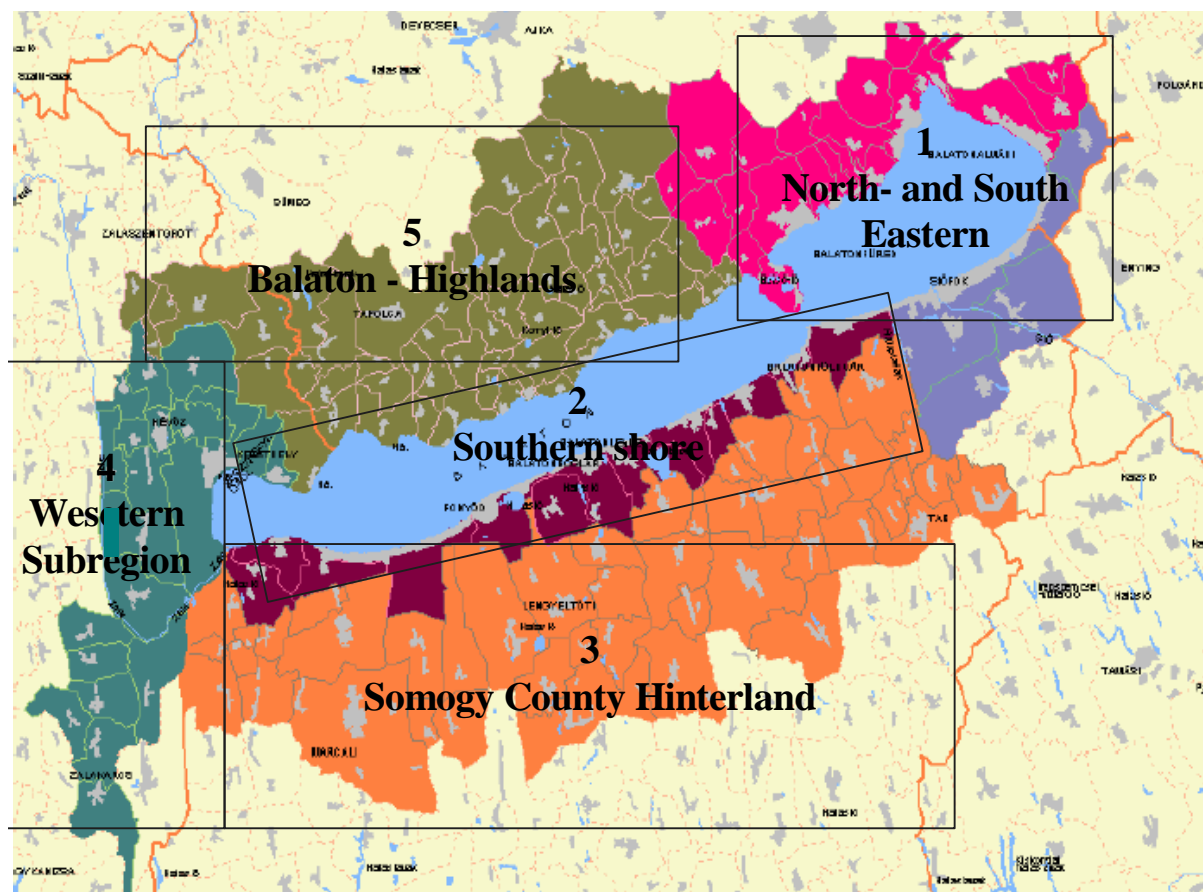
- improve accessibility by developing the regional airport;
- introduce quality standards and control;
- protect the environment;
- raise awareness of the population and local institutions concerning tourism issues;
- introduce regional tourism marketing;
- enhance cooperation between regional organisations;
- extend the season by developing medical and congress tourism and also rural tourism.

152. In 2004, however, the National Tourism Marketing Plan, in its guidelines for the Balaton area, remained focused on the German speaking countries and target groups, like the Netherlands, Denmark and Central-Eastern Europe, rather than considering new markets (Hungarian National Tourist Office, 2003). In 2005 a new National Tourism Strategy was drawn up by the National Tourism Committee. Concerning Lake Balaton, the strategy identifies challenges for tourism development that are not entirely new: strong seasonality, short average period of stay, declining number of guests, poor quality tourism services (especially in cheaper accommodation categories) and restricted capacities of high standard services. To overcome these weaknesses the strategy approved by the Balaton Tourism Committee aims to develop spatial diversification and institutional integration. Spatial diversification targets, based on the income generating capacities of the different areas, as indicated in Figure 24 are the following:

- North, and South Eastern areas: high quality services in health and wellness, sailing, golf, equestrian tourism;
- Southern shore: mass/family tourism, water sports and holiday resorts;
- Somogy county Hinterland: wine, rural tourism, angling, hunting;

- Western sub-region: Health tourism (Hévíz), "weather independent attractions", cultural heritage;
- Balaton highlands: active and wine tourism, conference and equestrian tourism.

Figure 24. Spatial analysis of income generation capability of the LBPRD, 2004



Source: Economic Research Institute.

153. Institutional integration constitutes the second major feature of the 2005 National Tourism Strategy. Its guidelines strengthen the role of regional tourism committees and tourist offices in regional planning:

- Regional Tourism Committees are to co-operate with Regional Development Councils;
- Regional Marketing Offices will be integrated into Regional Development Agencies.

154. Other changes relate to:

- the stronger position of tourism representatives in formulation and implementation of regional policy;
- sub-regions, which are identified and earmarked for specific tourism development.

3. Territorial development policy implementation in Balaton

3.1. Required and effective funding

155. The Strategic Development Programme of the Lake Balaton region for the 2002-2006 period identified overall needs of around HUF 390 billion to implement all the goals it contained. The lion's share of required financing concerns infrastructure, which represents more than two-thirds of the total amount (close to HUF 272 billion), essentially external (road) connections, as Table 12 shows. Tourism and tourism related measures like rural development represent close to HUF 81 billion, but rural development itself corresponds only to a modest 10% of this last amount. Measures in favour of the environment come in third, with close to HUF 35 billion; human resource development is to be allocated less than HUF 1.8 billion and measures in support of co-operation between local stakeholders are covered with HUF 376 million. Such an infrastructure oriented planned budget emphasise priority on "traditional" hard investment type development projects, with softer measures that could correspond more to place-based policy approaches at the initiative of the LBDC and its constituents receiving but token attention.

156. Looking at contemplated funding sources for the implementation of this ambitious programme, over 50% of identified financing sources correspond directly or indirectly to public national funds appearing in the national budget (more than HUF 202 billion), the remaining 188 billion corresponding to EU funds (more than 128 billion) and the private sector (close to 60 billion), as Table 13 demonstrates. Concerning national public funding sources, required amounts for LBDC, representing less than 10% of the total, can nonetheless have a leveraging effect on funds from other sources. These correspond to sums the allocation of which are fully decided by the LBDC within the SDP and can thus be considered as "place-based" project funding. Contributions from the three NUTS II regions on the territory of which the LBPRD is located are lower than the amount planned for LBDC itself. Direct national funding from different sector ministries and agencies is the main source identified, with more than HUF 145 billion.

157. Identified required funding for the period was agreed by the ministries and agencies concerned and approved by the LBDC but was later subject to strong budgetary cuts, with reductions from certain sources entailing decreases in others through a negative "multiplying effect". In such a hypothesis, reallocation of priorities and sub-priorities becomes a difficult task resulting in frustration among regional and local stakeholders. Also, management of multi-annual projects, which is often the case with EU funded measures, becomes increasingly difficult if required funding amounts cannot be sufficiently guaranteed on the middle term. As developments below amply show, this has been the case during this period: however no information was supplied on the criteria used for adapting to budgetary constraints while safeguarding the key components of the Strategic Development Programme. Only final funding allocated is developed further.

Table 12. Schedule and planned financing of measures of SDP of LBPRD

In million HUF

Objective/ measure	2002	2003	2004	2005	2006	Total
<i>Objective 1. Preservation and improvement of environment</i>						
1.1.Water Quality	2 004.0	2 424.0	2 850.0	1 586.0	1 172.0	10 036.0
1.2.Nature values	300.0	352.0	335.0	386.0	427.0	1 800.0
1.3.Constructed environment	3 390.2	3 518.0	4 563.0	4 704.0	5 736.8	21 912.0
1.4.Environmental conditions	34.0	304.0	304.0	304.0	304.0	1 250.0
Objective 1 total	5 728.2	6 598.0	8 052.0	6 980.0	7 639.8	34 998.0
<i>Objective 2. Activation of the economic resources and increasing the opportunities of entrepreneurs</i>						
2.1.Tourism	13 620.0	15 280.0	13 600.0	12 100.0	11 300.0	65 900.0
2.2.Rural development	1 405.0	1 644.0	1 784.0	1 669.0	1 569.0	8 071.0
2.3.SMEs	1 135.0	1 395.0	1 525.0	1 450.0	1 335.0	6 840.0
Objective 2 total	16 160.0	18 319.0	16 909.0	15 219.0	14 204.0	80 811.0
<i>Objective 3. Improvement of the accessibility of the region and development of the infrastructure conditions of tourism</i>						
3.1. External connections	26 035.0	32 680.0	45 645.0	38 465.0	24 000.0	166 825.0
3.2.Cohesion	4 139.75	4 536.25	5 030.5	5 080.5	3 580.5	22 367.5
3.3.Information networks	57.0	119.4	221.8	174.2	176.6	749.0
3.4.Infrastructure	12 686.0	16 398.3	13 771.0	9 534.7	5 821.0	58 211.0
3.5.Energy	3 887.3	5 368.7	3 952.0	5 627.0	4 884.0	23 719.0
Objective 3 total	46 805.05	59 102.65	68 620.3	58 881.4	38 462.1	271 871.5
<i>Objective 4. Development of human resources and enhancement of the regional identity of the community</i>						
4.1.Institutional system	24.0	22.1	2.4	3.0	3.0	54.5
4.2.Education	165.0	161.0	171.0	171.0	191.0	859.0
4.3.Increasing employment	-	50.0	165.0	170.0	175.0	560.0
4.4.Off-season employment	80.0	80.0	85.0	85.0	90.0	420.0
Objective 4 total	269.0	313.1	423.4	429.0	459.0	1 893.5
<i>Objective 5. Development of cooperation of stakeholders in the region</i>						
5.1.Developing capabilities	18.0	26.0	26.0	26.0	26.0	122.0
5.2.Organisation network	14.0	12.0	12.0	9.0	9.0	56.0
5.3.Regional identity	5.0	5.0	5.0	5.0	5.0	25.0
5.4.Quality assurance	60.0	25.0	25.0	25.0	25.0	160.0
5.5. Legal status of region	8.0	5.0	0.0	0.0	0.0	13.0
Objective 5 total	105.0	73.0	68.0	65.0	65.0	376.0
Grand total	69 067.25	84 405.75	94 072.7	81 574.4	60 829.9	389 950.0

Source: LBDCA.

Table 13. Planned financing sources of the measures of SDP of LBPRD

In million HUF

Objective/ measure	LBDC	Regional (NUTS II)	Central gov.	Foreign	Own	Total
<i>Objective 1. Preservation and improvement of environment</i>						
1.1.Water Quality	1 253.0	1 489.0	4 553.0	2 145.0	596.0	10 036.0
1.2.Nature values	529.0	393.0	596.0	0.0	282.0	1 800.0
1.3.Constructed environment	4 191.0	4 420.0	8 063.0	1 256.0	3 982.0	21 912.0
1.4.Environmental conditions	135.5	344.6	567.5	0.0	202.4	1 250.0
Objective 1 total	6 108.5	6 646.6	13 779.5	3 401.0	5 062.4	34 998.0
<i>Objective 2. Activation of the economic resources and increasing the opportunities of entrepreneurs</i>						
2.1.Tourism	6 520.0	5 600.0	22 105.0	6 875.0	24 800.0	65 900.0
2.2.Rural development	1 111.0	1 440.0	1 000.0	1 190.0	3 330.0	8 071.0
2.3.SMEs	1 570.0	719.0	2 444.0	0.0	2 107.0	6 840.0
Objective 2 total	9 201.0	7 759.0	25 549.0	8 065.0	30 237.0	80 811.0
<i>Objective 3. Improvement of the accessibility of the region and development of the infrastructure conditions of tourism</i>						
3.1. External connections	1 015.0	2 850.0	79 755.0	77 350.0	5 855.0	166 825.0
3.2.Cohesion	2 210.5	2 770.0	5 994.0	5 000.0	6 393.0	22 367.5
3.3.Information networks	224.7	224.7	224.7	0.0	74.9	749.0
3.4.Infrastructure	9 700.0	3 880.0	13 776.0	24 506.0	6 349.0	58 211.0
3.5.Energy	180.0	3 762.0	5 542.0	9 444.0	4 791.0	23 719.0
Objective 3 total	13 330.2	13 486.7	105 291.7	116 300.0	23 462.9	271 871.5
<i>Objective 4. Development of human resources and enhancement of the regional identity of the community</i>						
4.1.Institutional system	54.5	0.0	0.0	0.0	0.0	54.5
4.2.Education	215.0	0.0	343.5	129.0	171.5	859.0
4.3.Increasing employment	0.0	0.0	280.0	112.0	168.0	560.0
4.4.Off-season employment	42.0	0.0	210.0	42.0	126.0	420.0
Objective 4 total	311.5	0.0	833.5	283.0	465.5	1 893.5
<i>Objective 5. Development of cooperation of stakeholders in the region</i>						
5.1.Developing capabilities	122.0	0.0	0.0	0.0	0.0	122.0
5.2.Organisation network	44.0	0.0	12.0	0.0	0.0	56.0
5.3.Regional identity	25.0	0.0	0.0	0.0	0.0	25.0
5.4.Quality assurance	139.0	0.0	21.0	0.0	0.0	160.0
5.5. Legal status of region	13.0	0.0	0.0	0.0	0.0	13.0
Objective 5 total	343.0	0.0	33.0	0.0	0.0	376.0
Grand total	29 294.2	27 892.3	145 486.7	128 049.0	59 227.8	389 950.0

Source: LBDC.A.

3.2. Funding sources and programme allocations

3.2.1 National Office for Regional Development (NORD)

158. There is a line item in the annual budget of the National Office for Regional Development (NORD) for funds that can be spent on Balaton development. Within the framework of an agreement concluded each year with the Lake Balaton Development Council (LBDC), NORD delegates to the latter the right to distribute these funds. These agreements define the percentage and upper limit of funds available for each development topic given a priority in the Balaton Strategic Development Programme. A part of these monies is available as project support, with 50% own contribution required in

most cases, and based on applications relating to the targeted area. Projects that are mostly supported include water quality protection, safeguarding of the cultural heritage, renovation of historical buildings, increase/renewal of green areas in settlements, development of tourism, in particular, water, sport, wine and cycle tourism, and the support of programmes within cultural tourism.

159. In support of community infrastructure, most funds have been spent on the construction of the sewage network and the building of communal access roads and cycle paths, implemented with the involvement of own local governmental funds and funds from user fees (public utility associations). Local governmental institutions (school development, libraries) and the improvement of public safety (storm signalling system) were also supported through funds awarded upon application.

160. As Table 14 shows, NORD; over the past five years, channelled more than two-thirds of development funds made available to the LBDC,²¹ underlining its foremost role in regional development. This has two consequences. First, NORD is in a position to strongly shape overall government regional development strategies and support for Balaton, thus potentially introducing coherence across sectors. On the other hand, this pre-eminent position somewhat seems to reduce the effective role that can be played by the Lake Balaton Development Council, in which NORD is represented besides. Under these conditions, the functional area logic is not necessarily one that is conducive to true decentralization or place-based policy fundamentals relying mostly on local initiative. Moreover, proper functioning of co-ordination mechanisms is strongly reliant on personal relations and by definition made more difficult if political majorities differ at the national and regional levels.

Table 14. Resources of LBDC, 2000-2005

In million HUF

	2000	2001	2002	2003	2004	2005 at mid year
PMO (NORD)	166	865	882	445	1 117	994
MARD	190	50	120			
PRDP		365	374			
NDO				80	110	
MoET				30	100	
MoEPWM					150	
MoE					100	
MoCYS					10	5
Total	356	1 280	1 376	555	1 587	999

Note: PMO: Prime Minister's Office. MARD: Ministry of Agriculture and Rural Development, PRDP: Preliminary Regional Development Programme (PHARE), NDO: National Development Office (Prime Minister), MoET: Ministry of Economy and Transportation, MoEPWM: Ministry of Environmental Protection and Water Management, MoE: Ministry of the Environment, MoCYS: Ministry of Children, Youth and Sports.

Source: LBDC.

3.2.2 Ministries

3.2.2.1 Ministry of the Interior

161. Support granted by the Ministry of the Interior to settlements at Lake Balaton was not specifically targeted to the Balaton region but was part of a system of applications for support covering the whole country. As in other parts of Hungary, support in the Balaton area was available by application as targeted support, earmarked support and TEKI-CÉDE support (development-purpose subsidy aimed at the balancing of regional differences and target-type decentralised subsidy). Support was exclusively available for communal purposes (infrastructure development, in particular, development of sewer networks and communal public institution networks, *e.g.*, school equipment and doctor's surgeries), and for environmental protection projects. In general, the required own contribution was 40-50%, but in some cases 75% support (25% matching) was granted. For certain exceptional investments 100% support was provided. These included projects related to improvement of water quality, and water drainage. Further, the Ministry of the Interior provided support to improve the structural stability of embankments and dikes (disaster prevention), and the development of waste collection systems (waste islands).

3.2.2.2 Ministries in charge of social, health and youth affairs

162. The Ministry of Health, Social and Family Affairs supports projects aimed at improving the quality and increasing the capacity of the health care system, by providing support mostly for the acquisition of devices, equipment and medical instruments. They also provide some support for the construction and extension of doctor's surgeries. In general the Ministry of Health, Social and Family Affairs support projects related to child protection, care for the homeless and in support of a network of village managers. The Ministry of Children, Youth and Sports supports school developments and youth camps through different types of calls for proposals. There are no matching requirements for school developments, and youth camps receive 50-90% support.

3.2.2.3 Ministry of Economic Affairs and Transportation

163. Until October 2004, tourism belonged to this ministry, so the projects supported served tourism development purposes for the most part. The majority of support was to local governmental projects (*e.g.*, enhancement of the appearance of the settlement/tourist attractions, creation of esplanades, and renovation of historical monuments) where ministry support was topped up with communal own funds. Projects aimed at tourist "business" investments (accommodation facilities, spa development), where support was topped up with venture capital suitable for mobilization, were less frequent. Some projects supporting associations (*e.g.*, harbour built by anglers' associations) or the renovation of church facilities (*e.g.*, vicarage extensions, church renovations) also received support. This means that the Balaton budget of this ministry was suitable for the involvement of public funds (local governmental funds), civil funds and venture capital alike.

3.2.2.4 Ministries and organisations in charge of culture and heritage

164. Support by the Ministry of National Cultural Heritage was basically organised around three topics. The primary area was the protection, renovation or conservation of historical monuments in holiday resort areas and/or their utilisation for tourism purposes. That was followed by support for cultural events and the organisation of meetings or the sponsoring of amateur or professional cultural companies in the region. The third topic is the improvement of the conditions for human resources development, in particular, supporting the development of cultural institutions (*e.g.*, books for libraries, renovation of youth clubs) and skills development camps (*e.g.*, camps helping Roma children catch up with their peers). The primary area of support from the National Cultural Fund was for cultural events and the development of

means furthering professional activities. The majority of applicants were associations – mostly cultural ones, institutions (community centres, schools, etc.) – and individuals, rather than local governments.

3.2.2.5 Ministry of Agriculture and Rural Development

165. This ministry has a comprehensive system of different calls for proposals. Within the framework of the targeted appropriation for rural development, support is available for infrastructure development (roads), the development of communal institutions (community centres, church renovation), the development of village tourism (accommodation facilities, show-rooms, creation of tourist image), region-specific farming (renewal of grass framing) and the publication of informative materials. The own contribution required for these projects is 25-80%. Most applicants are associations and organisations (NGOs), but there are farmers and business applicants as well.

166. Plantation support is intended to further the development of region-specific agriculture as regulated by the Balaton Act, primarily the planting of vine-stock and the creation of fruit gardens. SAPARD (EU Special Accession Programme for Agriculture and Rural Development) programmes are typically aimed at the development of agricultural infrastructure (roads outside municipal borders, cable network), the development of agricultural (crop processing and breeding) facilities and the acquisition of machines and equipment. The spending of the land improvement and watering support budget is not only intended for agricultural development but also for water protection; considerable support is disbursed for surface water planning (ditch system, sewers). In the last two categories, applicants for support are typically farmers.

167. It seems that no previous Leader type projects were implemented in Balaton, which is quite surprising, given the higher percentage of NGOs in the Lake Balaton area as compared to national averages, indicating civil society involvement in local affairs. Was information on these programmes properly relayed to potential groups of beneficiaries? It is for this reason extremely important to disseminate information on Leader + in the Balaton area, to ensure that local initiative can be supported by use of this efficient tool, well adapted to small rural area projects having a proportionately greater impact than their modest financial level would seem to indicate.

3.2.2.6 Ministry of Environmental Protection and Water Management

168. From the "Water Management Fund" and the "Environmental Protection Fund", support is first and foremost given for the development of water utility networks (primarily sewage, and secondarily drinking water and surface water drainage). Within another framework, support was made available for landscape rehabilitation, landscape planning and green area development projects. In respect of the latter projects, support was given for nature protection and infrastructural development (hard road surface) purposes. Applications were accepted from local governments, with support up to 50% but typically covering one-third of the total cost.

3.2.3 Summary of 1999-2003 spending

169. As indicated previously, the ambitious goals of the Strategic Development Programme of the Lake Balaton Region supposed that a total funding amount of close to HUF 390 billion be mobilised from all public sources between 2002 and 2006 to finance the Programme. In fact tight budgetary constraints and reallocation of priorities at the national level led to spending over the five year period between 1999 and 2003 a mere HUF 34 116.5 billion so, at the end of 2006, it is doubtful that the initial funding amounts will effectively be spent. Tables 15 and 16 indicate respectively division of funding amounts over the five-year period by priority, with infrastructure retaining two-thirds of sums spent, in line with this initial stated

priority, however reduced the final allocation. Tourism and rural development measures are in the second position but the latter received only a small share of spending within this priority.

Table 15. Effective financing by Objective (million HUF), Strategic Development Programme, 1999-2003

by SDP Objective	1999	2000	Year 2001	2002	2003	Total
Objective 1: Preservation and Improvement of the environment	51.7	109.8	53.1	237.6	210.4	662.6
Objective 2: Activation of the economic resources and ...	374.3	1 139.4	1 516.3	3 851.3	1 264.0	8 145.2
Objective 3: Improvement of the accessibility of the region and ...	596.5	4 549.6	5 570.3	8 353.8	4 464.5	23 534.8
Objective 4: Development of human resources and ...	35.7	75.9	167.2	97.8	139.0	515.7
Objective5: Development of cooperation of stakeholders in the region	5.6	35.3	31.0	1.6	20.2	93.8
Other, or was not obvious in which objectives to belong	95.4	139.9	239.4	322.0	367.9	1 164.5
Total by years	1 159.3	6 049.9	7 577.2	12 864.1	6 465.9	34 116.5

Source: LBDCA, 2004.

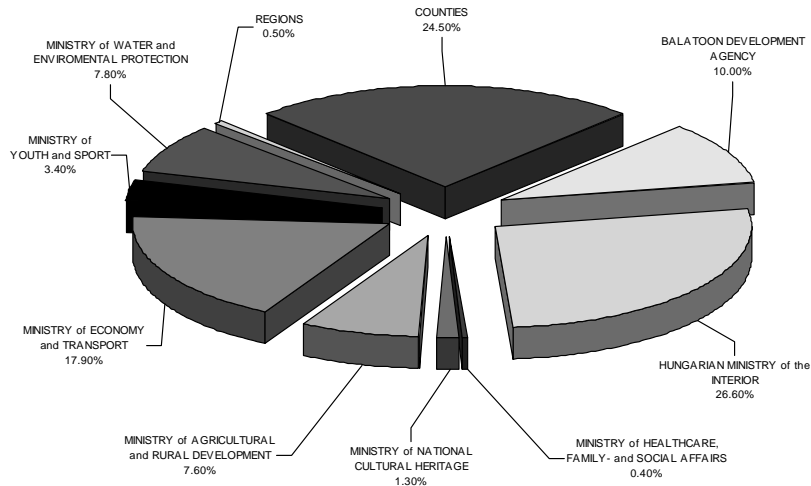
Table 16. Financing by sources (million HUF) of the Strategic Development Programme, 1999-2003

Year	LBDC	Counties	Regions	National (government)	Total
1999	-	432.5	50.5	678.7	1 161.7
2000	180.7	1 280.9	-	4 815.0	6 276.6
2001	744.4	1 062.7	155.5	5 701.5	7 664.1
2002	788.0	878.7	142.6	11 057.9	12 867.2
2003	412.1	1 243.5	421.2	4 418.0	6 494.20
Total	2 125.2	4 898.3	769.8	26 671.1	34 464.4

Source: LBDCA, 2004.

170. The charts that follow provide an overall view of spending within the Lake Balaton Priority Recreational District for the period 2000–2003 (four years only) concerning the different sectoral ministries, regions, counties and LBDCA. The monies involved do not account for matching fund requirements on particular projects nor do they include direct NORD funds. In any case, although the periods are not comparable (the SDP covers the years 2000-2006), annual average amounts spent remain far below identified needs. Figure 25 shows the respective contributions of different financing sources.

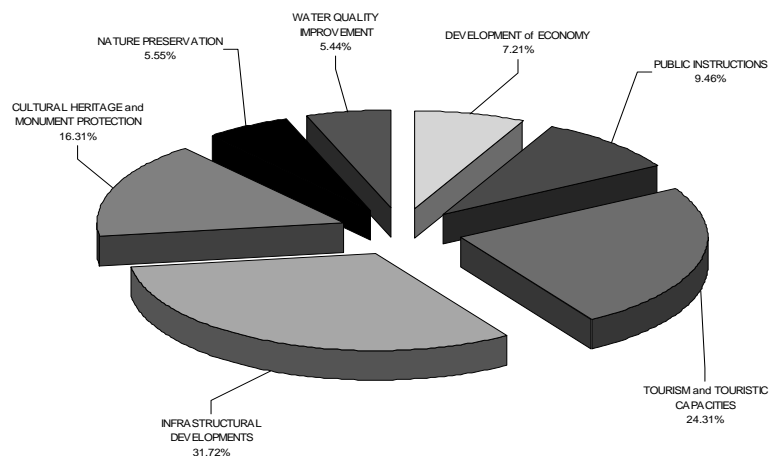
Figure 25. Sources of development funds in Balaton, 2000-2003
Subsidies by the financial sources ("Where did the money come from?")



Source: VATI Kht.

171. The next pie chart (Figure 26) shows that infrastructure development retains the main share of spending, with around one-third of public investment, thus remaining in line with the priority of the SDP. However, this share was scheduled to be up to two-thirds of total expenditure in the SDP, meaning that budget cuts were not uniformly distributed, with infrastructure investment supporting a proportionally higher reduction than others while still retaining its leading position. Tourism and cultural heritage follow and the three sectors represent together close to three-fourths (72.44%) of overall public expenditure during the period.

Figure 26. Sectors of development subsidies in Balaton, 2000-2003
Subsidies by the aim of the development ("What economic sector the money was spent for?")

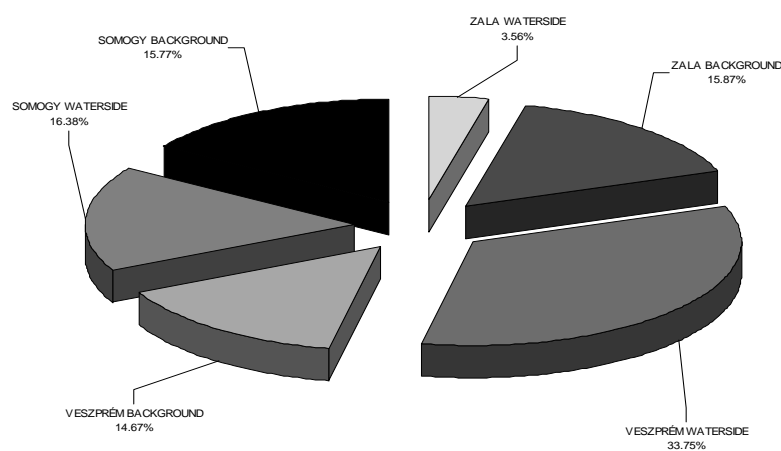


Source: VATI Kht.

172. The last Figure 27 indicates destination of funds by broad geographic area within the perimeter of the LBPRD, distinguishing waterside from background areas. Overall spending on the waterside remains predominant at close to 54% but with sharp contrasts between counties (less than 4% spent on Zala waterside, close to 44% on the Veszprem waterside). Background communities benefited from around 15% each of these public investments, showing that a lot remains to be done to ensure a more balanced distribution of development funds if rural areas are to be better integrated into overall tourism development strategies in coherence with diversification of products and clientele and improvements in quality that would benefit the image and promotion of the whole area.

Figure 27. Geographic distribution of development funding in Balaton, 2000-2003

Subsidies by geographic distribution ("Which location the money was spent?")



Source: VATI Kht.

3.3 Funding of tourism projects

3.3.1 Destination of tourism funds

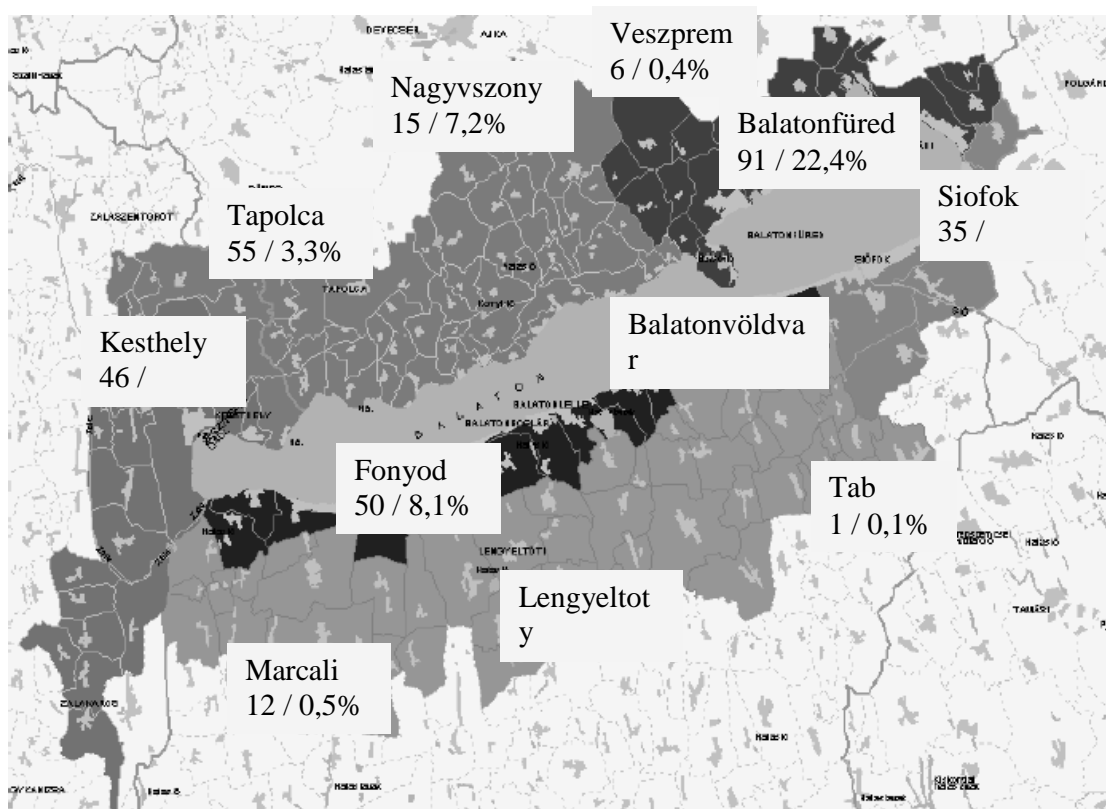
173. Between 2000 and 2004, 24% of development funds in the Lake Balaton Region went to tourism projects, mainly investment in accommodation. Out of these, according to the Regional Tourism Committee, only 0.5% went to human resource development (training and qualification). Also, the spatial division of funding practice (1999-2003) reflects on the high priority that is still given to lake-side development but also it reflects on the respective "absorption capacities" of background municipalities and lake side resorts.

174. In the rural hinterland; (see Figure 28) only the micro-region of Nagyvászony absorbed a substantial share of tourism funding (7.2%) during the same period. The four other "hinterland" micro-regions accounted for less than 5% all together. This represents a small share compared with the cities of Siofok (25%) and Balatonfüred (22%). The size of projects is also quite different between the main lakeshore municipalities and the much smaller rural ones: Big projects are developed in regions where there are already large capacities in tourism. This explains why the number of projects in hinterland micro-regions like Tapolca is relatively high (55) while it is low at the lake side as in Siofok (35). Funding appears dispersed in one area while it is probably better targeted in the other, offering also greater and more visible impact.

175. The main donors for tourism related projects were the Lake Balaton Development Council (7.5% with own funds plus 30.2% through the Széchenyi Plan) and the Ministry of the Economy and Transportation (57.2%), representing together 94.9%. This corresponds to the allocation of funds in the area: the LBDC is funded through the central government for implementation of regional strategies, the foremost of which is in the field of tourism development and the main ministry was until recently the government body having authority in the tourism sector.²² Minor contributions came from the Somogy and Veszprém Development Councils (1% respectively), the Ministry of Employment and Labour Affairs (2.8%) and others like the Ministry of Cultural Heritage (0.1%).

Figure 28. Allocated support by micro region and number of applications served

% of entire tourism funding received, 1999-2003



Source: Social Science Research Group, LBDC.

176. A detailed review of measures adopted in the field of tourism in Balaton for the year 2003 characterises the funding policy as mainly oriented towards improvement of infrastructure and existing public tourism facilities around the lake, as Table 17 and Figure 29 show. Some facilities for new forms of tourism were also set up like the cycling path and the information system for the Balaton Uplands hiking path. Environmental investment (sewerage, waste disposal...) was also at a high level. Marketing support was more modest, in contrast to support for events. Softer measures like training or capacity building remained very discrete and were entirely devoted to health tourism. This breakdown by categories underlines continuing strong support for traditional infrastructure-type measures rather than funding allocations that could enhance the capacity to devise and manage an increased level of place-based projects

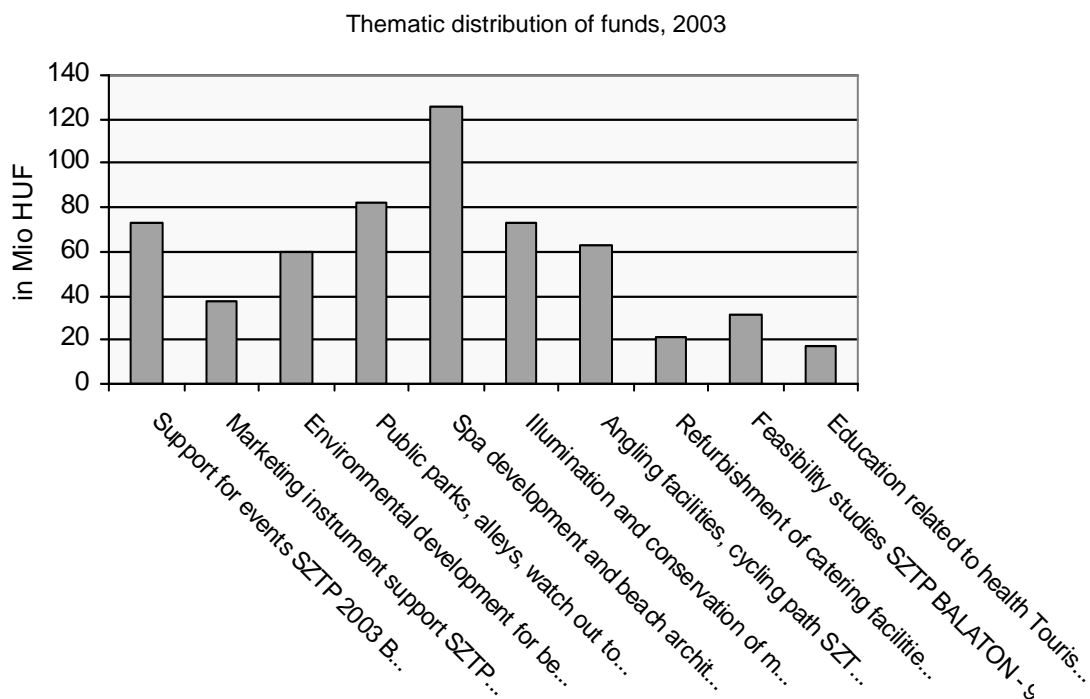
in smaller areas where such investment is required to develop the tourism potential (in particular, village renovation and support to lodging infrastructure for rural tourism).

Table 17. Type of tourism projects funded in the Lake Balaton Region

Funding of tourism projects in the Lake Balaton Region, main categories (2003)	
Project Types	Received Support (In HUF)
Tourism related infrastructure and environmental measures SZTP 2003 BALATON -1	20 240 000
Support for events SZTP 2003 BALATON -2	73 622 000
Marketing instrument support SZTP 2003 BALATON - 3	38 174 000
Environmental development for beaches and playgrounds SZTP 2003 BALATON - 4	60 021 000
Public parks, alleys, watch out towers, hiking paths SZTP 2003 BALATON - 5	82 943 000
International events (e.g. valley of arts) SZTP 2003 BALATON – TU 6	25 000 000
Spa development and beach architecture SZTP 2003 BALATON - 6	126 891 000
Illumination and conservation of monuments SZTP 2003 BALATON - 7	73 131 000
Angling facilities, cycling path SZTP 2003 BALATON - 8	63 727 000
Refurbishment of catering facilities SZTP 2003 BALATON - 8	21 242 000
Feasibility studies SZTP BALATON 2003 - 9	31 875 000
Development of the visitor SZTP BALATON TU 26	544 000
Support for tourism experts SZTP 2003 BALATON – TU 28	521 000
Education related to health Tourism SZTP 2003 BALATON – TU 19	17 194 000
TOTAL	635 125 000

Source: Hungarian National Tourist Office, 2005.

Figure 29. Funding of major tourism projects in Balaton by category



Source: Hungarian National Tourist Office, 2005.

3.3.2 Financial tools

177. In 2004, support for tourism development could be obtained for the development of medicinal and thermal baths, accommodation facilities and catering facilities within the framework of the Széchenyi Tourism Development Programme and support with EU co-financing could be secured for development projects in seven additional fields:

- national parks and other protected natural areas;
- visitor-oriented services of places connected with World Heritage and historical town centres;
- extension of castles with tourism functions;
- visitor-oriented services of museums and other special historic monuments;
- infrastructure development for active tourism;
- accommodation facilities;
- tourism services.

178. Within each area of the Strategic Development Programme, operational programmes are broken down into numerous sub-objectives. As a result, development priorities are not specifically emphasised, and this further dissipates the already scattered support funds. It would be desirable to identify some major development priorities and focus funds by seeking coordination and the harmonisation of support objectives. Until recently, international funds and investment were rare in the Balaton region. Since EU accession, the possibilities for obtaining funds on application have widened:

- EU Cohesion Funds: The large-scale projects proposed for inclusion in the National Development Plan for the 2007-2013 EU programming period and to be supported by the Cohesion Funds include the creation of lakeshore esplanades, as laid down in the Balaton Act, at those places specified in the Balaton lakeshore rehabilitation plans. The acquisition of an area necessary to create the esplanades along 30% of the lakeshore section within the municipal borders in each settlement may require expropriation, which requires funds above the cost of construction. PHARE and PHARE CBC Programmes are available for improvement of administration and infrastructure in the field of traffic and environment. LEADER + supports local initiatives and partnerships to develop rural regions. In the Lake Balaton area, no LEADER projects in the field of tourism, contrary to developments in many rural regions across Europe, appear to have been implemented up to now, although this tool seems well adapted to such needs.
- OPRD (Operational Programme for Regional Development). Both local governments and the private sphere may receive support from this EU Structural Fund. In the Balaton region, the enhancement of tourist attractions, rehabilitation of settlement centres capable of attracting tourism and the development of tourism-related services and accommodation are given priority in the case of OPRD support. Support is also available for the protection and utilisation of national parks and protected natural areas and areas representing a natural value, and the man-built heritage (castles, towers, world heritage areas). Support is 90% for rehabilitation projects, and up to 95-97% for tourist attraction developments. In case of the development of tourism-related services 30-50% of the cost will be born by OPRD.

- EIOP (Environment and Infrastructure Operational Programmes). Within the framework of this programme, support is available for the elimination of existing environmental pollution, environmental land improvement, development of waste management, environmental disaster elimination, protection of drinking waters, development of sewage treatment, development of protected natural areas, modernization of the energy supply (utilisation of renewable energy sources) and traffic infrastructure development.
- ARDOP (Agriculture and Rural Development Operational Programme): support is given to farming organisations for the purpose of changing over to region-specific farming in accordance with the development objectives of the region, and to organic farming. In the Balaton area, the importance of this is underlined by the need for water quality protection, the efforts to create ecological balance, and environmental considerations. Rural development projects supported by ARDOP relate to refurbishing of villages, investment in accommodation facilities and local handicrafts.²³

3.4. Micro-regions, local initiative and rural tourism in Balaton

179. As indicated previously, the specific characteristics of the LBPRD as a functional area defined by law, benefiting from specific national attention and required to co-ordinate with multiple territorial entities at different levels (NUTS II, III and IV), entail complex governance mechanisms. The special status of the LBPRD ensures coherence with overall national policy objectives while permitting, through the Lake Balaton Development Council, the expression of regional and local concerns and the initiation of locally driven projects. However, by definition, these processes are necessarily of a different nature than those applied elsewhere in Hungary. In other parts of the country, the traditional economic development and social cohesion goals are pursued within the framework of national policies and under the aegis of a strong central government through cooperation and role sharing between the NUTS II programming regions, the counties, the micro-regions and the municipalities. In the case of the LBPRD the NUTS II and III levels are multiple so the territorial expression of local initiative appears more unified within smaller units of government: municipalities (NUTS V) and micro-regions (NUTS IV).

180. The main towns, most of which are lakeside municipalities draw the highest level of visitors and receive a sizeable share of tourism revenue, by their sheer size, level of revenue and population are important regional actors in the Balaton area and their voice can be easily heard. This is not necessarily the case of much smaller municipalities so the expression of their views through micro-regions, three of which are represented on a rotating basis within the Lake Balaton Development Council, are an important requisite. However, only four NUTS IV micro-regions (out of 14) are fully within the perimeter of the LBPRD, meaning that not all micro-regions feel equally concerned with Lake Balaton developments. Besides, there are a certain number of voluntary micro-regions (19) totally or partially within the LBPRD limits and these do not necessarily have direct expression in the Council. On the other hand the concerns of the rural hinterland of the Balaton region need to be fully taken into account in view of ensuring more balanced development within the area and better leveraging the natural amenities of its rural parts.

181. Expression of local initiative in these more rural parts of Balaton thus appears more fragmented, with the micro-region offering the best answer to increase visibility and foster significant development projects within the strategic guidelines for the functional region. Since most micro-regions are astride the limits of the Balaton region, these entities have probably not been able to fully play the role of expression of local interests and engine of local co-operation that is normally assigned to them. Deployment of the new and stronger multi-functional micro-regions, such as the one in Marcali, assorted with increased "cross-border" co-operation would probably help in strengthening areas²⁴ that have up to now received only a modest share of regional development funds in Balaton, as indicated above. Rural development

funding whether national or from the EU in these areas, in particular to increase local capacities in conceiving and managing projects also appears to be relatively modest in spite of the tourism potential.

182. The specific status of the LBPRD ensures it priority attention at the national level while securing a certain level of funding within a long-term strategy. On the other hand the rather strong elements of centralisation in the functioning of the LBPRD are reflected in tourism governance and tourism policy implementation with emphasis on traditional top-down product development and marketing rather than bottom-up tourism development. Such features are not necessarily conducive to the development of tourism in the lesser developed parts of the area, particularly the rural hinterland, insofar as this type of quality tourism rests not only on adequate capacity and resources for local providers but also requires strong local initiative and networking of these actors. The institutional framework does leave room in a formal sense for representation of these areas through the micro-regional development council members within the LBDC. However, proclaimed goals for rural tourism development in the "hinterland" do not yet appear to translate into truly operational mechanisms, particularly in terms of mobilising financial resources, which could encourage the place-based development of rural areas.

183. The main task of tourism governance is to give appropriate support for diversified destination development. Assuming that quality improvement on lake shore destinations and spas in terms of services and infrastructure is tackled successfully, on the basis of clear strategies and promising first results, improvement of quality, image and marketing of rural tourism remains to be achieved. This brings forward questions relating to the institutional environment and its functioning, not only at the local level but also at the national level, concerning in particular necessary synergies and co-ordination between regional development concerns (NORD) and rural development (Ministry of Agriculture and Rural Development).

184. The division of responsibilities between the Ministry of Agriculture and the Balaton tourism institutions seems to lack proper co-ordination. Rural development (ARDOP) and LEADER projects are implemented on the regional level through Rural Development Offices situated within counties. These substructures seem to have weak links to the Region of Balaton through the three counties in the field of rural development. There are no institutionalised consultations on a regional level concerning rural tourism, nor are there corresponding regional sub strategies outlined by the Ministry of Agriculture for the Lake Balaton Priority Recreational District. Exchange of information and consultation is formally ensured through the Lake Balaton Development Council with representatives from National Ministries such as Agriculture and Rural Development but, aside from monitoring developments for wine production through the institute located in Badacsony, little attention seems to be given to specific rural tourism needs.

185. A case in point is that of LEADER which has not been applied as a rural development tool in Balaton in spite of the fact that local initiative, measured by the dense network of NGOs in the area, is generally considered to be more developed than elsewhere in Hungary. During the pilot phase of LEADER + in 2001, 14 Local Action Groups were selected countrywide; however none had been formed or selected in the Lake Balaton Region. A hypothesis is that lack, of adequate co-ordination among the above charted institutions contributed to missing this opportunity for rural tourism in LBPRD. Tourism in the Balaton Region (including rural tourism) still appears to focus on more conventional modes of planning and development leaving little room for more "grass-roots" approaches.

186. There is however another possible line of cross sectoral networking in Hungarian rural tourism development. NGO's like the Regional Council of Wine Communities and the National Federation of Village Tourism already play an important role in rural tourism development. The National Federation of Villages and Agro- Tourism has 1 100 members in Hungary and about 100 in the County of Veszprém, but only five in the Balaton Region. It is running an extension scheme for farmers offering rural accommodation, and a labelling and quality control system for its members. There does not seem to be a

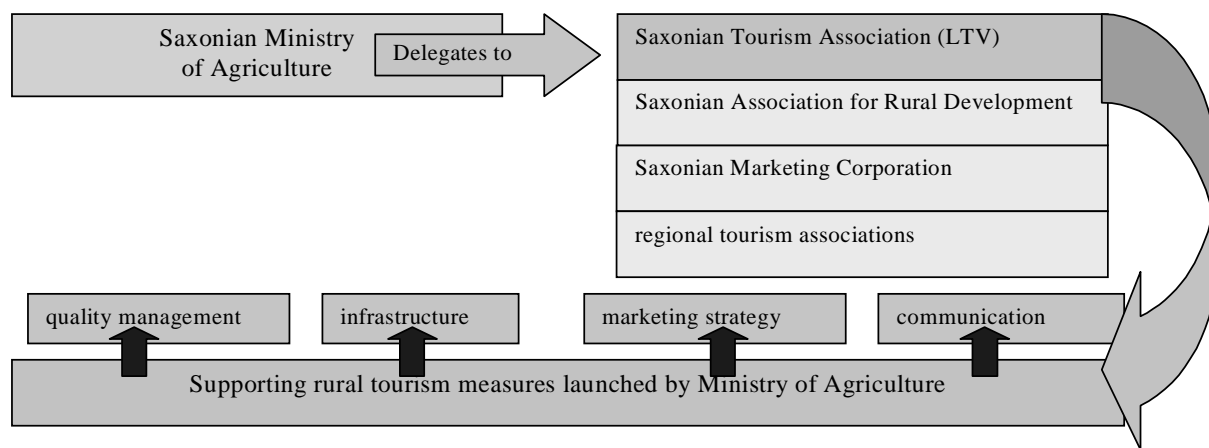
formal or regular communication link between the LBDC and this organisation which could support rural tourism development strategies in Balaton.

187. The Land of Saxony in Germany provides a good regional example, highlighting the institutional restructuring and co-ordination of rural tourism policy (see Box 2). The sound basis of the approach is underlined by the fact that the Federal Department of Agriculture has delegated co-ordination for its tourism related programmes to the Regional Tourist Office (LTV) of Saxony, thus ensuring integration of rural tourism within overall tourism development (Landestourismusverband Sachsen, 2005). Given the special status of the Lake Balaton Region, a similar approach could well be taken in Hungary, extending cross-sector co-operation to the local level in a functional area where innovative national policy approaches can be easily applied. Such integration in the LBPRD could well be monitored in view of possible application in other parts of the country where rural tourism could benefit from stronger co-ordination and support from the institutional tourism framework.

Box 2. Integration of rural tourism in the tourism framework of the Land of Saxony in Germany

Institutional structure for governing tourism in Saxony-Germany

The Federal Ministry for Agriculture in Saxony has delegated coordination tasks in rural tourism to the Saxonian Tourism Association (LTV). This commercial organisation belonging to the Federal Ministry of Economic Affairs from 2004 onwards is responsible to integrate regional tourism associations, the Saxonian Rural Tourism Association, the Saxonian Association for Rural Development and the Saxonian Marketing Corporation. Measures and programs launched by the Ministry will now be managed and supported by the Saxonian Tourism Association (LTV).



Source: Landestourismusverband Sachsen 2005

Source: Futour.

188. Other related issues in Hungarian rural tourism need to be investigated. The target group for programmes to promote it, in most cases, is the farming community. Is there a clientele of farming families interested in diversification? Does the Ministry of Agriculture see itself mostly committed to the traditional

agricultural sector of producing and processing food? Appropriate integration of NGOs with direct contact to rural families and tourism entrepreneurs in the field but also to European markets is another issue and no initiative of this type seems to exist yet in Balaton. The National Federation of Villages and Agro Tourism could provide this expertise as it is a member of "Eurogites",²⁵ a network and information platform for rural tourism in Europe. Rural tourism in the Lake Balaton Region would have a more solid ground for developing if the Balaton Tourism Project Office were to cooperate closely with the National Federation of Villages and Agro Tourism. Since integrated product development and quality management are key issues for rural tourism, an adequate organisation on the regional level to co-ordinate and integrate actors and programmes is required.

189. A second and more general consideration when thinking of structural improvement of regional governance of tourism in LBPRD is to strengthen the coordinating capabilities of the Lake Balaton Development Council in terms of rural tourism. Development of a Regional Rural Tourism network would permit full integration of rural tourism in the activities of the regional tourism marketing office. The communication network which the Balaton Tourism Project Office has already established with tourism operators could be supplemented by the contacts of the Federation of Villages and Agro Tourism, particularly in view of establishing priorities relating to tourism projects within rural development programmes. The goal of co-ordinated quality product development would thus be easier to achieve and would be a pre-condition to efficiently market rural tourism.

190. It is effectively not sufficient to improve existing facilities: creation of new products in conformity with quality standards is required. Integrated Quality Management (IQM), as defined by the European Commission (1999) constitutes the reference in this area. This concept integrates the following key features:

- local awareness and support for tourism by local people and across all rural sectors;
- co-ordination between local tourism enterprises and support for and involvement with the management and marketing of the destination;
- an improved image based not on false expectations but on true cultural values;
- a set of products, that can be marketed with confidence;
- increased customer satisfaction;
- knowledge of economic, social and environmental impacts of tourism and the ability to adjust to these.

191. Rural accommodation and catering in the Balaton region today is evolving largely on private, uncoordinated initiative while basic infrastructure and crucial assets are developed under the aegis of regional policies, at least where direct synergies with lake shore tourism are identified. Although the new Tourism Development Strategy (2007-2013) has outlined a more specific development of sub-regions, the institutional landscape needs adjustment towards integration of these goals that could well be pursued at the level of micro-regions. The Region of Basilicata in Southern Italy, also with a "traditional" segment of beach tourism constitutes a good example of management of the hinterland as a destination (see Box 3). As the case of Basilicata demonstrates, efficient governance of tourism can direct, support and facilitate integrative processes. However, prior to this, well grounded concepts for product development and marketing need to be defined and adopted by local actors, both public and private.

192. The example of Basilicata is only one amongst many to demonstrate key issues in rural tourism development. How can governance in the Balaton Region enable or facilitate similar developments? The strategies employed could aim infrastructure development such as accommodation, village renovation and development of major regional assets (National Park, cycling lane...). Though these are important elements in the tourism value chain, additional measures need to be taken to develop a selection of bookable products characterised by a distinguishable Lake Balaton rural tourism image. The framework required to deliver these tasks should be organised around the following principles:

- institutional flexibility and regional networking and delegation of co-ordinating tasks towards a leading agency integrating the private sector and NGOs;
- programmes and policy guidelines allowing for private-public partnerships not only in project financing but in product development, quality schemes and training in an integrated bottom-up approach as applied in LEADER type projects.

Box 3. Basilicata (Southern Italy) tourism partnership

The region of Basilicata has used extensive market research as the starting point for developing a specific quality product, based on heritage itineraries and packages tailored to the need of the market place.

Regional characteristics: The Southern Italy region comprises 10 000 km², 93% of which is agricultural land or forested. It has rich vegetation and notable cultural heritage like Greek temples and Roman thermal baths, Norman castles, and medieval abbeys. It is not densely populated, with just 600 000 inhabitants, but unemployment levels are high at 28%.

Tourism: Basilicata has a modest tourism activity: 461 accommodation enterprises, 200 of which are hotels, the best being mainly agro tourism. Tourism has been slowly growing to around 270 000 arrivals in 1996. However, it was highly concentrated on the coast and during the summer season.

Strategy: A quality initiative was launched building on the following modules:

- private-public co-operation (a local development agency brought together 35 organisations and institutions);
- extensive product and market research (products tailored to the needs and expectations of potential guests);
- training and advice for enterprises;
- setting up a quality scheme.

The concept has proven successful though numbers of visitors increase slowly. A new spirit of "working together" has spread in the area and the number of participating enterprises is growing inspired by the examples given.

Key success factors:

- innovative role of the local development agency (Business Innovation Center);
- product audit and feedback from visitors;
- in-depth market research;
- effective use of international study visits;
- providing a bookable product by linking small rural experiences.

Source: Futour.

193. The measures concerning spatial diversification of tourism and institutional integration as planned within the 2005 National Tourism Strategy should improve general co-ordination and efficiency of tourism governance. However these measures do not directly target the issue of establishing and managing sustainable rural tourism products. Lack of co-ordination with the Ministry of Agriculture and the private and NGO sector constitutes a hindrance so a bottom-up quality product development and control system will be hard to achieve under these conditions. Therefore a leading regional agency encompassing all rural tourism actors involved should be established in the Balaton region to promote rural tourism initiative. This agency could be strongly linked to overall regional and national tourism marketing.

4. Evaluation and recommendations

4.1. Evaluation

4.1.1 Territorial development in the Lake Balaton Region

194. The special status and governance framework of the Lake Balaton Priority Resort District (LBPRD), embodied in law, reflects well the role that the area plays in the realm of Hungarian history and identity. This specific functional area status, bringing together parts of three counties and three NUTS II regions was however primarily decided to cope with concerns relating to water level and quality, which constitute the basis for tourism development in the region. Adapting previous tourism patterns to a new political context and addressing new customer needs were other major challenges facing the new functional region and its governing body, the Lake Balaton Development Council (LBDC). Prior to 1996, issues of the recreational district were served in only a fragmented way, since no unit of governance or planning had responsibility for the entire area of the lake and its surroundings. With the establishment of the Lake Balaton Development Coordination Agency (LBDC), under authority of the LBDC, the area now also has its own capacity for analysis, planning, and project proposal preparation.

195. In regard to its priority missions indicated above, the LBPRD has performed rather successfully. Water quality improvement measures were actively pursued and extended. In spite of some decline in water quality because of rainfall shortages in the 2000-2004 period the situation today is in conformity with major international standards and is continuously and carefully monitored. Infrastructure investment for sewerage and water treatment co-ordinated by the LBDC, explain these achievements. In parallel, a progressive conversion from the mass-tourism products of the socialist era towards a more diversified offering catering to the changing needs of international and Hungarian clientele has been undertaken. The results here may be considered as more mitigated but evolving tourism trends, both for foreign and domestic markets can explain this in part. Efforts towards improvement of quality and diversification cannot produce immediate results and action, particularly promotion, has to be pursued on the long run.

196. On the other hand, the creation of the functional region and overall national funding efforts, however unpredictable, accompanying its adaptation, have not prevented a two-speed sequence from developing. Even if some lake-shore communities still have a long way to go before truly consolidating their tourism prospects, efforts undertaken are beginning to pay off in many cases and are undoubtedly going in the right direction. This is not the case for most hinterland communities losing population and not getting a fair share of tourism revenues in spite of their undeniable assets, both in their own right and as complimentary offerings to lakeshore holidays. Efforts in the LBPRD have effectively and rightfully concentrated on the lakeshore but a slight change of course is now required both in the interest of the more rural parts of the region as well as those of the whole Lake area itself, insofar as enhancement and promotion of rural amenities can contribute to up scaling the image of tourism in Balaton.

197. Bearing these first achievements and shortcomings in mind, the Lake Balaton Development Council, supported by the efforts of the Lake Balaton Development Coordination Agency, has a demanding task. The LBDC and its Coordination Agency are indirectly related to the National Office for Regional Development (NORD) but there is a separate line item in the National Tax Law for the Balaton region. This could give the LBDC and its agency some independence from even NORD, although the fact that NORD is its principal source of development funding helps to maintain strong control. However, this ensures coherence with national regional development strategies, properly fitting specific Balaton preoccupations into the overall national framework, while attending to its unique needs.

198. On the other hand it makes it rather difficult for LBDC to develop a true place-based policy, insofar as local development remains under these conditions largely a top-down rather than a bottom-up initiative. This also implies continuous dialogue to ensure smooth functioning, rendering co-ordination tasks somewhat daunting. In the future, pressure for more grass-roots initiative could come from citizens, due to the active role of NGOs in the area but also from the new multi-purpose functional micro-regions which are the units of reference for sub-local identity and projects, as witnessed in the case of Marcali. The issue that could arise here is that of potential conflict between Balaton interests and those of other parts of micro-regions astride the limits of the functional areas. Here again, effective co-ordination with counties and NUTS II regions' development agencies is indispensable, albeit resource consuming. The specific role and functions of the LBDC could be usefully incorporated into the second NRDC together with that of NUTS II level regions.

199. However, there are other substantial accomplishments to be recounted for the Lake Balaton area over the past decade. Strong institutional support for the Lake Balaton region was certainly instrumental in the formulation of a major Balaton component and programme for 2001-2002 within the National Tourism Development Plan. Because Balaton earns one-third of national tourism revenues, the argument was made that commensurate resources should be invested in the region from the tourism development budget. As a result, starting in 2002 several hotels in the region were assisted to modernise and upgrade their status to four stars and these seem to have preformed very well in spite of certain downward tourism trends.

200. Also, the LBDC has been instrumental in introducing more institutional coherence in the region, thus facilitating future development endeavours. Thus, until recently, the Lake Balaton area was involved with two national parks, namely the Balaton Uplands National Park and the Danube-Drava National Park covering the Kis Balaton Wetlands. On the initiative of the Lake Balaton Development Council all parklands in national parks in the LBPRD are now included within the Balaton Uplands National Park, rendering promotional efforts, in particular, more efficient on the basis of overall area identity, attractiveness and diversity of potential activities.

201. Also, in an effort to find common ground with other regional authorities having responsibilities in the Balaton area, the LBDC initiated specific agreements with the three regional development councils. Agreements with each of the three Transdanubian Development Councils were signed in 2001-2002 but these were quite general and did not follow a joint action plan, so co-operation was not really able to strengthen. More detailed agreements were made and accepted by the three development councils in 2004. Notwithstanding the lack of real coordinating power by the Lake Balaton Development Council, it nonetheless continues to forge ahead in seeking to represent the entire Balaton. Such efforts strongly contribute towards more balanced development within the functional region perimeter, by ensuring that the needs of hinterland communities are well taken into account, both through specific funding efforts within the LBPRD and the traditional financing channels used within counties and NUTS II regions.

4.1.2 Tourism development in Balaton

4.1.2.1 Territorial disparities

202. Tourism development policies achieved their goals only in some parts of the region. Investment in accommodation and infrastructure favoured some tourism centres, while for the “hinterland” and part of the lakeside shares in tourism have become smaller. Such concentration has advantages but it also bears risks: costs for infrastructure development and maintenance are low and synergies among the different actors involved are high (for shops, catering). On the other hand quality tourism relies on limited guest numbers to maintain standards and atmosphere. Conflicts may arise with developing low budget and quality tourism within the same tourist centres. Also, spatial cohesion and the reduction of inter-regional disparities, are not yet developing. The hinterland and its rural population seem to have no substantial role in the evolving trends of Balaton tourism, while the geographical distribution of development funds seems to largely maintain existing patterns rather than try to open the way for new paths in tourism development based on synergies between the lakeshore and its hinterland.

4.1.2.2 Sustainability of tourism projects

203. The capacities built during recent years in the Spa sector already show a positive effect in the regional economy. However human resources development has not been considered as important as physical structures. Hungarian and foreign expertise is available for the spa sector. For other forms of tourism like rural tourism and the transformation of mass tourism operations, human resources development as a funding category seems to be underrepresented (0.5% of tourism funds). Human resource development could enhance:

- product development and project management capacities;
- ability for personal and institutional co-operation;
- formation and support to local networks and initiatives by tourism entrepreneurs;
- acquisition of foreign languages (mostly English, proficiency in German is more developed).

4.1.2.3 Rural tourism products and marketing

204. Rural tourism products in the LBPRD are not yet developed to a stage permitting efficient marketing, although the potential is there. For wine tourism, the establishment of six wine routes in the region is an important step for the development of this tourism product. Wine tourism also relies on quality accommodation and cuisine and services, which are hardly found in the rural hinterland. The development of all the other products of rural tourism (including equestrian tourism and active nature holidays or participation in farm activities) is still in an early stage and need to be encouraged by financial incentives.

205. The cycling route around Lake Balaton could help to initiate cycling tourism towards the rural hinterland. The leveraging of another asset for rural tourism would be the refurbishment of heritage villages. The renovation of traditional houses, the integration of historical sites and practices (rural museums) into products like heritage routes as well as the promotion of handicrafts and art-crafts would strengthen the capacity for rural tourism in the “hinterland”. More systematic use of existing rural development tools for such purposes could be promoted by better dissemination of information on eligibility and conditions to access corresponding EU and national funding sources.

206. The potential source markets (mainly Germany, Netherlands, United Kingdom, France and Austria) for rural tourism should be addressed much more specifically than this is the case up to now. The market for target groups like families, seniors (55+), cyclists and possible strategic partnerships with tour operators should be researched for tailor made product development and marketing strategies. Access to these markets requires a supporting network that could be provided through the Hungarian Federation of Villages and Agro Tourism, giving access to the resources offered by Eurogites and its Internet gateway.

4.1.2.4 Governance

207. Besides general difficulties in co-ordinating Lake Balaton Development funds, governance efficiency in terms of innovative tourism development appears low. Tourism development programmes do not have a legal status (are not based on a law like the Balaton Act). This weakens their impact on regional planning and project financing. Also, tourism policy has been too widely ranged. The lack of specific development goals defined for spatial units is now addressed by the new National and Regional Tourism Strategies. Place based tourism policy only works with a place based concept applying to smaller micro-region units. However, in 2005 NORD and the National Tourism Office of Hungary initiated an agreement between LBDC and the Balaton Tourism Committee to work together on innovation in tourism development. By this agreement the Balaton Tourism Committee will be working as the subcommittee of LBDC to prepare the decisions on tourism issues.

208. Examining the list of applicants and the spatial distribution of funds, it seems rural communities presently have little absorption capacity due to lack of institutional representation and small size of their potential and existing tourism business. A “bottom-up” approach in project development (like in the LEADER model) would create the basis for the emergence of larger scale cooperative activities by creating awareness and entrepreneurial knowledge among rural actors. Present funding methods seem to favour mainly established business rather than open up opportunities for rural communities in tourism.

209. Financial incentives can only bear fruit if local tourism entrepreneurs and the supporting sectors of agriculture and cultural heritage and other relevant actors get involved in a well co-ordinated and institutionalised quality standards scheme like IQM. Models from European countries, such as those presented in this case study, based on integrated product development and quality management could be used when designing specific programmes and institutional frameworks for rural tourism in Lake Balaton.

210. To get the regional rural tourism actors organised within one leading institution would be of great advantage. This could be the Hungarian Federation of Villages and Agro Tourism. In all cases this organisation could usefully establish and maintain close ties with the LBDC so as to co-ordinate rural tourism with overall tourism development in the area.

4.1.2.5 Major issues

211. Having reviewed the state of tourism in Balaton, challenges for future regional development become apparent. The inherited physical and partly organisational structures do not comply with the demands of European and world-wide trends and changes in tourism. Mass-lake-side-tourism accounts for the decline of Balaton Tourism and the reasons are complex:

- The opening up of iron curtain borders has deviated tourist flows from eastern countries to the west so Balaton is no longer needed as a meeting point for otherwise divided (German) families.
- The structure of accommodation is designed for low budget tourism, while European trends show prevalence for quality tourism.

- There are few cultural and "bad weather" attractions to be found.
- The persisting "bath tub image" of the Balaton Lake shore affects marketing in new segments of modern quality tourism.
- Once operators are confronted with declining turn-over rates and profits, tourism facilities tend to suffer from lack of reinvestment which reduces attractiveness even further.
- Modern information technology and ever cheaper and faster transport enables comparison and competition among world wide destinations.

212. Summarising these developments, substantial practical questions can be identified in the LBPRD:

- How to nurse the emerging and promising new trends in rural and lake side quality tourism?
- How to extend the very short season?
- How to create incentives for rural actors to invest in tourism and to engage in human resource development and regional networking?
- How to refurbish mass tourism structures and integrate them into new quality concepts?
- How to develop a new image for the Balaton Region?
- How to deal with development: risks of high capacities and spatial concentration?

4.2. Recommendations

4.2.1 Financing of the Strategic Development Programme

213. It is very difficult for a body required to develop and implement a strategy requiring strong and permanent co-operation with both national level bodies and other local governments to fully establish its credibility and try to fulfil goals that are determined within a national policy framework if it does not dispose of a basic security in terms of funding. Multi-annual budgeting is not easy to achieve but a certain degree of assurance can be achieved through contractual approaches with minimal thresholds that appear both reasonable and necessary to attain fundamental targets. It is therefore suggested to establish a contractual mechanism, comparable the then French "Contrats de Plan Etat-Région" which would permit the LBDC to better implement goals that have generally agreed to by different levels of government.

214. It would also be advisable to establish predictable and objective criteria with thresholds permitting adjustments in case of budgetary constraints under foreseeable conditions which would not imperil the implementation of fundamental goals of the strategy. Likewise it is strongly recommended to avoid reductions in funding for small local area projects such as those that can be developed by micro-regions. In case of overall cuts, allocation of these small amounts that have proven their efficiency in terms of encouraging local initiative should be fully guaranteed. This is particularly necessary since these small areas are those, in the rural hinterland, which are losing population and jobs and remaining aside most of the tourism revenue scheme in spite of their potential.

215. The second National Regional Development Concept designated the Balaton region as a priority development area for the next planning period. Therefore, it is recommended that the components of the renewed Lake Balaton Strategic Development Programme be incorporated into the second National

Development Plan (2007-2013)²⁶ which constitutes the National Strategic Reference Framework of Hungary. Incorporation of the programme into the second NDP would permit to secure funds for the entire programme period. It would be advisable in this case to have LBDC act as a Joint Programming and Monitoring Committee (JPMC) – thereby including the three NUTS II regions – to ensure successful implementation of the programme. LBDC could, in turn, support the tasks of the LBDC by acting as an Intermediate Body.

4.2.2 Governance

4.2.2.1 Improving coordination with other bodies

216. Each of the NUTS II regional development councils should be directed to have a section (chapter) in their development plans that pertain to the Balaton area. Those plans should be developed in collaboration with the LBDC. Also, NORD could require signoff from the LBDC on the other Regional Development Council proposals in the Balaton area. Lastly, ex-post follow-up mechanisms to ensure sufficient use of EU structural funds in the Balaton could be devised with the three NUTS II regions.

217. Clearly, efforts by the LBDC to organize collaborations with the NUTS III (county) development councils and with the NUTS II regions should facilitate adequate planning and project implementation in the Balaton area. It would perhaps strengthen the position of the LBDC and its agency if NORD sent representatives to these meetings.

218. A mechanism could be developed by NORD whereby agreements made between the LBDC and other regions, communities, agencies, and organisations are recorded and registered with NORD and can be overseen by that organisation on behalf of LBDC if required.

4.2.2.2 Improving internal work processes

219. The LBDC should contemplate streamlining its decision making process but without decreasing the representation of all parties concerned by development of the area. In order to overcome the difficulty of too large a group for expeditious decision-making a small “executive committee” could make recommendations to the larger council or act on its behalf in certain specific cases.

220. Sub-committees and working groups acting on special activities of the LBDC would report regularly to the executive committee and to the whole council. Advisable working groups would be in the areas of tourism, the environment, and on infrastructure. A working group co-ordinating relationships with other development agencies in the area could also be set up to ensure continuous monitoring of project implementation. The sub-committees following work progress within the working groups could comprise voting and non-voting members of the council as well as qualified experts.

4.2.2.3 Encouraging sub-regional initiative

221. It is advisable to efficiently support the expression of local initiative and the formulation of projects at the sub-regional level. The appropriate framework for this is the statistical micro-region, reference for the new multi-purpose approach that can ensure fair distribution of funds between small areas both for public service provision and for the private sector and could in particular adequately leverage CSF programme funds, particularly Leader projects.

222. Communities in the Statistical Micro-regions, through adequate incentives, should be encouraged in conceiving and implementing projects involving LBPRD settlements and adjacent ones, thus breaking down, both in mind sets and in practical terms the "invisible barrier" between those within and those

outside. Internal cohesiveness within micro-regions can strongly facilitate co-ordinating resources to the mutual benefit of all communities in micro-regions whether they belong or not to the LBPRD.

223. The spill-over effects of such an approach would truly motivate NUTS II regions and counties in their efforts to better understand and integrate Lake Balaton region preoccupations in their own strategic thinking. Such a vision benefiting different types of areas around the Lake would contribute towards developing mutually beneficial co-operation and synergies, particularly in the area of tourism where assets can well be located astride the limits of the LBPRD.

4.2.3 Tourism

4.2.3.1 Guidelines

224. Concerning the improvement of the Balaton image the National Tourism Committee issued a proposal (2005) concerning targeted definition (in terms of activities and customers) of the five sub-regions:

- North and South Eastern: high quality health/wellness services, sailing, golf, horseback riding;
- Southern shore: Mass/family tourism, water sports and holiday resorts, beaches;
- Somogy county background area: wine, rural tourism, angling, hunting;
- Western sub-region: health tourism (Hévíz), weather independent attractions, cultural heritage;
- Balaton High-Lands: active and wine tourism, horseback riding, and conferences.

225. This strategy formulated by the National Tourism Committee takes well into account the existing potentials in natural and infrastructure assets. The Balaton High-Lands “hinterland” could eventually be considered for rural tourism as well, since natural assets and rich cultural heritage are abundant. Such a spatial division of tourism might further help to improve planning and co-ordination of projects. It might also provide some security and orientation to entrepreneurs and communities in their local initiatives – assuming that the division is accepted by the actors involved.

226. Furthermore the issue of rural tourism should be elaborated in more detail, if parties involved are concerned with this option for the hinterland communities. A programme could be drawn up to evaluate which rural municipalities actually qualify for rural tourism and then design a “bottom-up” and integrated rural tourism strategy for the “hinterland”. Institutionalised partnership and co-operation should be given more weight than has been done in previous tourism strategies. If tourism policy remains spatially unspecific, communities will not have the chance to initiate and participate in rural tourism.

227. The spatial division and development into thematic sub regions needs to be supported by appropriate marketing strategies – including product development, quality labelling and control systems and region-centred marketing. To ensure this, associations of tourist entrepreneurs, NGOs, municipalities and regional administration should establish sub-regional horizontal networking and draw up a master plan for thematic sub-regional tourism development. This binding document would constitute the reference for investors and policy makers alike before formulation of new project proposals.

228. To develop thematic sub regions into viable rural tourism destinations, enhanced networking and integrated planning to achieve tailor made rural tourism products for specific target groups are required. This specific approach towards different markets and the integration of the thematic focus should become

important criteria when developing and funding new tourism strategies and investments. Human resources development and cross institutional networking should be financially supported and become compulsory criteria for support.

229. The above-mentioned measures suppose local and country-wide networking of rural tourism providers to offer quality accommodation and activities while providing simple access to information and booking to European customers. Development of membership of Lake Balaton rural tourism providers in the Hungarian Federation of Villages and Agro tourism is required for these purposes, in particular to open access to the European wide Eurogites network and its Internet gateway.

4.2.3.2 Specific recommendations

Wine tourism and local specialities

230. Wine tourism has started and needs further support to develop: it should be based on a marketing strategy for quality wine and cuisine. The Research Institute for Viticulture and Oenology in Badacsony, in co-operation with wine route associations and wine communities of the Lake Balaton region could serve as a multiplier and facilitator to formulate and implement a regional wine and tourism marketing campaign.

231. Wine tourism is characterised by high expectations of guests concerning wine quality, tasting, food quality and atmosphere. Standards for wine tourism facilities should be set up. Labelling includes appropriate appearance of cellars, restaurants and accommodation. In particular the latter have to meet certain standards in size when catering to bus groups. A minimum variety of quality wines has to be presented in different states of the maturing process. Presentation needs to address issues of wine growing, wine making, history and stories. Ecologically sound viticulture methods and labelling are appropriate.

232. The combination of wine with regionally produced food or organic specialities like pumpkin-seed oil (as in the Steiermark Region of Austria)²⁷ strengthens the image of wine tourism and provides synergy with other producers and food processing entrepreneurs. Collaboration with the Ministry of Agriculture and Rural Development and farmers associations seems to be appropriate to explore and develop production and marketing for the Balaton Region.

233. There are more products that are suitable for regional branding and providing synergies with wine:

- traditional pickles made from onions, garlic, paprika, mushrooms, etc. (what we know from oil-based Italian produce could be developed as traditionally vinegar based vegetable processing);
- promotion of local animal husbandry (*e.g.*, Beef and Goose liver as a traditional regional products).

234. The rural production chain of such regionally characteristic food processing should operate under a regional quality system (regional brand). In Germany the “Eifel-Regional-Brand” project (Saarland-North Rhine Westphalia) brings together more than 80 certified enterprises committed to promotion of regional produce with high quality standards.

Cycling tourism

235. For cycling tourism German and Austrian cyclist associations (ADFC and AÖFC) have developed standards for accommodation facilities and cycling paths. These could be transferred to the Balaton Region when organising cycling tourism more systematically. A “Cycling-Conference” could be organised as has been done for the Danube and Elbe cycling paths. The following actors could be invited:

- regional and municipal governments and administrations (for establishment, maintenance and sign posting);
- tourism marketing institutions (national, regional and municipal tourist offices).
- private businesses (hotel, private accommodation, tour operators, sport shops, etc.).

NOTES

1. Hungary, alongside 9 other new members became a member of the EU in April 2004..
2. See Kopányi and Wetzel, World Bank, 2004 and OECD Territorial Review of Hungary, 2001.
3. Major municipalities are even "Cities with County rank". None of the 23 such cities in Hungary are in Balaton.
4. 23 cities in Hungary have county rank, meaning they are entitled to also perform county functions
5. The number of micro-regions has evolved from 138 in 1994 to 150 in 1998 and to 168 in 2003.
6. Sewer and water systems or solid waste management infrastructure for instance.
7. Appendix 1 of the Act CXII of 2000 on the Approval of the Physical Plan and Definition of the Physical Planning Regulation for Lake Balaton Priority Recreational District. This law is called Balaton Act in short..
8. TERET decided at its first meeting to invite as an equal member, the Lake Balaton Development Council.
9. One of the branch offices of the Hungarian National Tourism Promotion Company, overseen by the Hungarian National Tourist Office.
10. Classification of rural areas according to the OECD typology is the following:
 - predominantly rural area: more than 50% of the area's population lives in (rural) communities, where the density of population is under 120 persons/km²;
 - significantly rural area: 15-50% of the area's population lives in (rural) communities, where the density of population in under 120 persons/km²;
 - predominantly urban area: less than 15% of the area's population lives in communities, where the density of population is under 120 persons/km².
11. Figures are based on guest nights spent at commercial accommodation (Hungarian Central Statistical Office, 2003).
12. OECD calculation on the basis of figures from Ministry of Economy and Transport, 2003.
13. OECD calculation on the basis of figures from Ministry of Economy and Transport, 2003.
14. Mountain Communities are small wine-growing areas.
15. Others are: ECOP (Economic Competitiveness OP), HRDOP (Human Resources OP), ARDOP (Agricultural and Rural Development OP), EIOP (Environmental Protection and Infrastructure OP).
16. Although broadly defined objectives will chart the way up until 2020, with the goal of economic and social cohesion to be pursued in particular by improving the competitiveness of regions and developing an Information Society.
17. Through SAPARD (Special Accession Programme for Agriculture and Rural Development).
18. It operated before under the authority of Ministry of Economic Affairs and Transportation.

19. With legal status of a company since 1996.
20. Contrary to NUTS II level programming regions, the Lake Balaton functional area is not entitled as such to EU funding, meaning that this needs to be negotiated with the former, drawing upon the allocations of each region within the ROP.
21. These annual allocations nonetheless fall quite short of the estimated HUF 6 billion yearly average amounts required to implement the strategy.
22. The tourism sector has been transferred at the beginning of 2005 to the Minister without portfolio in charge of regional development.
23. EU support for the entire programme is EUR 317 million. The share for development of rural areas (Priority 3) represents EUR 83 million between 2004 and 2006, but release of funds in 2005 appears delayed.
24. The creation of a multi-functional micro-region bringing together three former voluntary micro-regions around Keszthely, Heviz and the Kis Balaton is another good example.
25. The Eurogites network covers 19 countries in Europe. It provides tourist information and permits booking in quality premises. It also supplies information and advice in rural tourism development to its members.
26. Now under preparation, with completion scheduled for mid-2006.
27. In this region of Austria, farmers, linking up with rural tourism operators, are heavily engaged in this activity.

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