

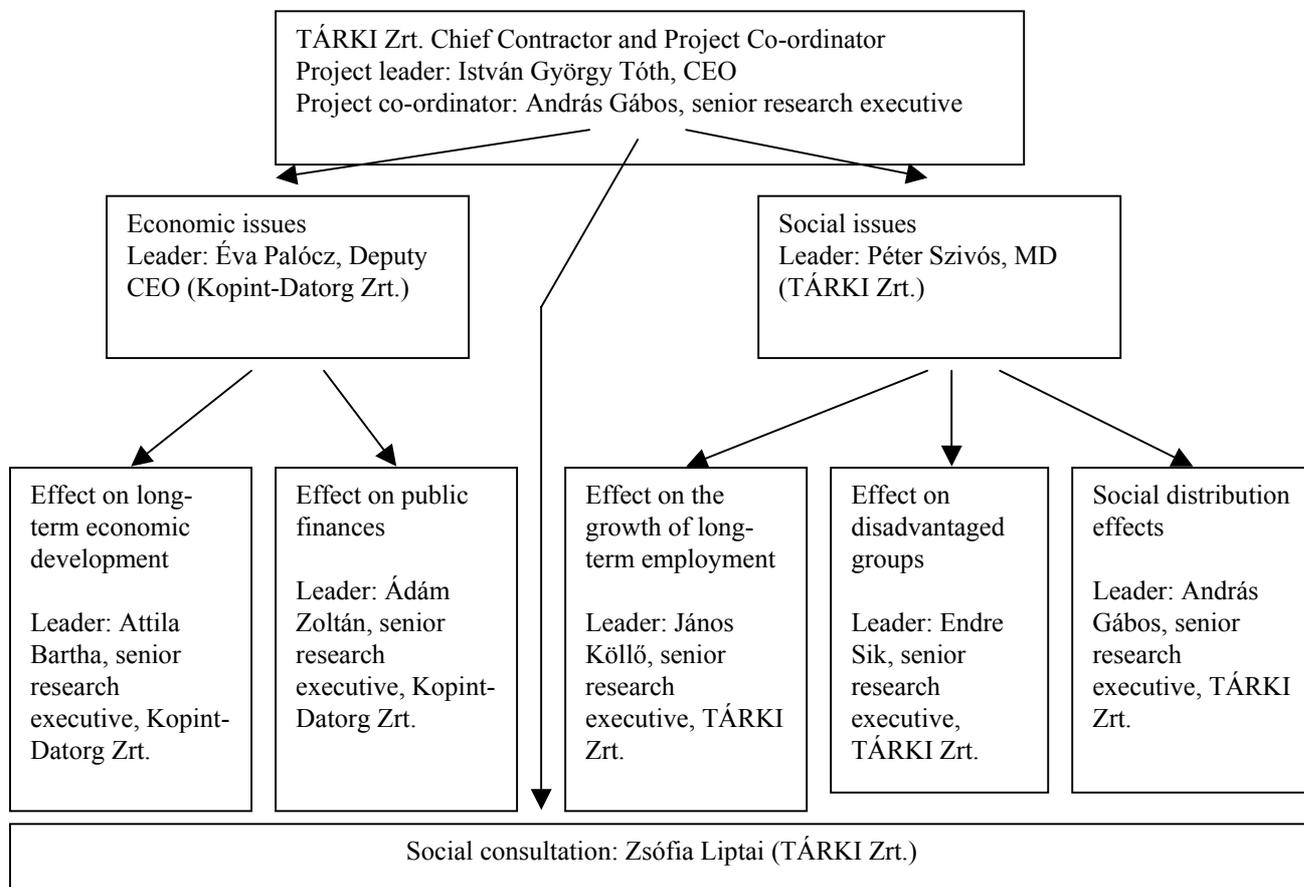
The horizontal ex-ante evaluation of  
the Operational Programmes of the  
New Hungary Development Plan

Volume 1 of 2: Summary Conclusions

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# Summary conclusions

## I. THE TERMS OF REFERENCE AND DEFINITION OF THE TASK

1. The National Development Agency (NDA) (or more precisely, its predecessor, the National Development Office) commissioned a consortium led by TÁRKI Social Research Institute (sub-contractor: Kopint-Datorg) to prepare a horizontal evaluation of the effects of the priority axes and interventions defined in the Operational Programmes of the New Hungary Development Plan, according to the criteria set out in the invitation to tender. The horizontal dimensions defined by the NDA and analysed in the course of the evaluation are as follows: public finances; long-term employment; long-term economic development; disadvantaged social groups; and social distribution.
2. Ex-ante evaluation of the individual Operational Programmes is part of the planning procedure required by the European Union, and the conclusions will be incorporated into the final versions of the Programmes. The purpose of the horizontal evaluation is to explore and assess the effects of the Operational Programmes (OPs) alongside the above-mentioned five dimensions and identify the mechanisms by which these effects operate. The report is also intended to help with invitations to tender as the programmes are rolled out, and to provide criteria for interim and ex-post evaluations. All the sectoral and regional Operational Programmes will be evaluated according to the above horizontal criteria, and recommendations will be made on how to mitigate the adverse effects of the interventions and, conversely, how to modify the planned measures so that the horizontal criteria are more effectively met. Most of the conclusions seem critical, as it is our aim to identify for the NDA, all the potential risks that may emerge in the execution phase of the programmes, as well as the possible side-effects that could manifest themselves in terms of the five dimensions analysed.
3. During the evaluation process, the evaluators and the NDA were in constant contact. As this was ground-breaking work, there was a need for gradual interpretation. There had to be a series of consultations on how best to adapt to the planning process, and also to evaluate documents that were at various stages of readiness.\* Our report was prepared on the basis of the versions of the Operational Programmes effective on 6 December 2006.

*Purpose:  
horizontal ex  
ante evaluation  
of the effects of  
development  
policy  
interventions.*

*The horizontal  
evaluation  
complements the  
mandatory,  
program-level ex-  
ante evaluation.*

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\* For the evaluation and feedback that we received during the preparation of the analysis, we would like to express our gratitude to the Vice-President of the National Development Agency, István Vilmos Kovács; to Chancellor Gabriella Lantost; to the former and current Heads of the Analytical, Modelling and Evaluation Department of the NDA, Balázs Szepesi and Gábor Balás; and to many of their colleagues, especially Gábor Veress. The staff of the Department has also helped us over the past months by organizing the necessary workshops. The present version is, therefore, the result of a series of consultations, but the text published here reflects solely the conclusions and recommendations of TÁRKI and Kopint.

4. The information available to us allows us only to see the direction and the presumed order of magnitude of the effects of the Operational Programmes along the various dimensions. We cannot undertake to put a figure on, for example, the Gini index of inequality or the unemployment rate, or to offer percentage points of change. However, the tables supplied in the chapters that set out our detailed results do include our findings as to the direction and the extent of the changes in inequality or employment levels. The tables at the end of this summary highlight the expected interrelations in terms of the various criteria, and also focus on the direction of the effect mechanisms.

*Aim to explore mechanisms, rather than offering a prediction.*

5. The evaluation process was linked to the following milestones:

*Timetable*

19 July 2006 – Submission of the paper on the methodology for a horizontal ex-ante evaluation.

24–25 July 2006 – The workshop presenting the methodology for the evaluation.

25 October 2006 – Submission of the first draft of the interim version of the horizontal ex-ante evaluation report.

2 November 2006 – Discussion of the first draft of the interim version with NDA officers and the planners of the OPs.

13 November 2006 – Submission of the final draft of the interim version of the ex-ante evaluation report.

21 December 2006 – Consultation with OP planners about the plan's scheduling, its priorities and action plans.

22 January 2007 – Submission of the first version of the final draft of the horizontal ex-ante evaluation report.

20 February 2007 – Submission of the second version of the final draft of the horizontal ex-ante evaluation report.

7 March 2007 – The executive presentation of the horizontal ex-ante evaluation.

21 March 2007 – Submission of the final version of the horizontal ex-ante evaluation report.

6. The five dimensions of the proposal are complemented by an ex-ante evaluation of social dialogue, which, in terms of its methodology, was based on an analysis of documents and on a content analysis of 36 interviews, consisting of 15–18 open questions, conducted in two groups. Our aim was to find out, as far as circumstances permitted, whether the social dialogue had contributed to the publicity surrounding the planning process, and whether it fulfilled expectations in terms of transparency.

*Partnership evaluation*

## II. THE CONTEXT OF THE DEVELOPMENT POLICY: GENERAL LESSONS AND TRADE-OFFS

7. The set of objectives for the Operational Programmes is connected to the two strategic objectives defined in the New Hungary Development Plan (NHDP): that is, the enhancement of competitiveness and of activity. Thus the OPs' tools were, in theory, selected in such a way as to effectively achieve those objectives. During the planning process, the various Operational Programmes were analysed in separate ex-ante evaluation reports according to their set of objectives, their coherence and their inherent logic. Those reports were not supposed to provide an evaluation according to the horizontal criteria that we have used in our analysis. Consequently, it is not the aim of this report to evaluate the medium and long-term effects of the individual Operational Programmes within their own set of objectives. In certain cases, this is not a problem. However, some of the Operational Programmes have main objectives that coincide with one of the horizontal dimensions we examined. The two most obvious examples of such a coincidence are: the Economic Development Operational Programme (Gazdaságfejlesztési Operatív Program, GOP), the primary objective of which is the enhancement of sustainable economic development (also one of the horizontal evaluation criteria); and the Social Renewal Operational Programme (Társadalmi Megújulás Operatív Program, TÁMOP) and the associated Development of Social Infrastructure Operational Programme (Társadalmi Infrastruktúra Operatív Program, TIOP), whose strategic objective is the enlargement of employment (which, at the same time, is another important horizontal criterion used in our evaluation). As a result, this report, especially in the two areas mentioned, complements the work of the ex-ante evaluators. These two evaluation workstreams (the "traditional" ex-ante evaluation and the ex-ante evaluation following the defined horizontal criteria) have, in fact, been running in parallel with one another over the past few months. Therefore, we urge both the reader and political decision-makers to read and evaluate the products of these two parallel evaluation processes together, and to reflect on both.

*The relationship between the OP evaluation and the horizontal ex-ante evaluation.*

8. Although there is a partial overlap with the strategic objectives (long-term economic development and employment enlargement), our evaluation (conducted using the five dimension criteria set out in the proposal document) attempts to explore effects that are not of primary importance from the perspective of the programmes – and indeed are, in some cases, unintentional from the perspective of the overarching aims. Yet, despite the best efforts of the OP planners to take the horizontal criteria into account, it would still be legitimate to ask whether there are not conflicts between these criteria. With regard to the five dimensions, three such dilemmas can be highlighted: (1) economic development and income/social inequalities, (2) economic development and the extent of the deficit in public finances, and (3) the connection between innovation and employment levels.

*There are trade-offs between the horizontal objectives.*

9. According to the literature on the connection between *economic development and income inequalities* in an economy that consists of two sectors (a modern one and a traditional one), in the first phase of development, driven by the modern sector of the economy, the distribution of income will become more unequal; however, after a certain level of development is reached, the inequalities start to decrease (the reverse U shape). The main driving force behind this process is the different weight and participation of the two sectors in the development of the economy. The different income-generation potential of the two sectors and the flow of labour result, first, in increased income differentials, and then in a levelling of those differentials. Theoretically, this could play an important role in terms of the social effects of any development policy, as, using this correlation, we could gauge the inequality effects that the development policy itself (assuming it does stimulate growth) is likely to have.
10. The findings of the empirical literature on the correlation between economic development and income inequalities do not, however, always point in the same direction. In fact, economic development has as much chance of reducing income inequality as of increasing it. There are empirical studies that confirm the absolute poverty-reducing effect of development, as a result of a more open economy, while at the same time the distribution effect is either neutral or contested. At the same time, it is important to note that, in the case of a triple connection between development, inequality and (absolute) poverty, the effect of the development is not independent of the inequality structure observed at the outset. In fact, empirical results indicate that, if development is started in a highly unequal society, the flexibility of the poverty-reducing effect is less than in the case of more equal societies. We can thus state that there is an “effective inequality region” encompassing inequality levels that are neither too high nor too low, which offers a favourable environment for the economic development to exert its (absolute) poverty-reducing effect.
11. Nevertheless, it is also obvious that the effect of development on inequality or poverty depends, on the one hand, on changes in employment patterns and, on the other hand, on how the institutions of the welfare state and public welfare expenditure pass on the benefits of development, and how they go about softening the impact of economic downturns. TÁRKI’s most recent analysis, which encompassed all the member states of the EU, looked at the correlations between development, employment and welfare expenditure around the turn of the millennium. The findings are not conclusive. If, in a given country, at a given time, GDP is growing, and so are employment levels and/or public welfare expenditure, that does not necessarily determine the trend of income distribution (inequalities may increase or decrease). However, in those countries where GDP and/or employment levels are decreasing, we cannot expect inequality or poverty to decrease.

*The inequality-effect of economic growth is not straightforward...*

*...the relationship depends on the institutional mediators...*

12. But there is a two-way connection between economic development and inequalities. Not only does economic development have an effect on inequalities, but the extent of the difference in incomes also influences the performance of the economy. Under certain circumstances, a very high level of inequality may hinder development, via distortions of fiscal preferences of the central budget and the spread of rent seeking channelled by democratic majority voting mechanisms, or through the activity of movements of social discontent.

*...and is two-way.*

13. The relationship between long-term *economic development and public finances* – apart from obvious connections, such as greater development leading *ceteris paribus* to a lower public finance deficit relative to GDP – is apparent in two respects. On the one hand, the public finance balance relative to GDP and, on the other hand, the quality of public expenditure both significantly influence development in the long term. According to the traditional (strictly *Keynesian*) interpretation of development and the balance of public finances, fiscal consolidation leads, in the case of unbalanced public finances, to serious losses in development: the narrowing of macro-demand in itself restrains development; furthermore, because of the hypothetical multiplier effects, the development losses far exceed the savings generated by the reduction in expenditure. Conversely, the latest thinking on fiscal adjustment emphasizes the development-enhancing effects of a reduction in public finance deficits. The most important of the development stimuli – normally called non-*Keynesian* effects – are, on the demand side, a reduction in interest rate levels, together with the effect that has on business investments and the growth in consumption, and, on the supply side, an improvement in corporate profit margins, lower labour costs and a more attractive environment for capital investment. (Economists usually also include the confidence factor improving as a result of a credible economic policy.) So whereas, according to the *Keynesian* view, the stabilization of public finances carries with it the threat of recession, those approaches that consider non-*Keynesian* effects to be dominant believe that fiscal consolidation generates economic development.

*The relationship between economic growth and the state of public finances is also controversial...*

14. In the case of small, open economies, integrated into the system of global capitalism (and especially those that find themselves in a period of rapid real economic catch-up), empirical results clearly indicate the dominance of non-*Keynesian* effects. Between 2001 and 2005, in the countries of the Eastern-Central European region, there seems to have been an amazingly strong correlation between economic development and the balance of public finances, as well as public expenditure: a more favourable fiscal situation and smaller-scale state redistribution typically went hand in hand with more rapid economic growth. According to empirical studies, even in the short term the readjustment of the state finances in the nineties led to significantly faster economic growth in the Eastern-Central European countries surveyed.

*...but growth and a balanced budgets reinforce each other...*

15. On the subject of the connection between changes in the magnitude of government spending relative to GDP and the long-term changes in per capita GDP, studies show a rather negative correlation: increased government spending restrains long-term economic growth, while keeping public expenditure in check enhances it. The available data on the effects of the quality and structure of government spending also provide food for thought. Community investments that seek to accumulate physical capital have a positive effect on long-term growth only when these investments serve as conduits for private investment. Otherwise, in the case of investment in infrastructure, the decline in the rate of return on investment is clear. At the same time, practically all empirical studies unequivocally prove the significant positive growth effects of government spending targeted at the accumulation of human capital, while the growth effects of community R&D spending depend on whether the money is in addition to, or in place of, private sector R&D.

*...overspending, however, slows down development.*

*Empirical studies clearly demonstrate the positive effect of the accumulation of human capital on economic growth.*

16. In our case, one of the key criteria in our analysis is the assessment of the social effects of the development policy. According to empirical studies, these effects can be grouped into at least two categories. On the one hand, there are effects that contribute to those factors already at work in determining income inequalities. On the other hand, we have effects that derive from the ways development policy resources are utilized and from the restructuring of a society's operational mechanisms. These latter effects will be discussed later in the report.

*Incidence and mechanisms: the two different types of societal effects.*

17. The Hungarian literature on inequalities of the recent past clearly shows that the most important determinant factor is employment, which is, in turn, determined by the level of schooling achieved in the formal school system, by the skills and abilities there obtained, as well as by the post-schooling qualifications, training and skills gained during a career on the active labour market. In view of this, the employment effects of development policy programmes are especially important in terms of their potential social effects. This, then, highlights the significance of the third important potential trade-off, namely whether the programmes focus on innovation and the enhancement of productivity, or seek to maximize employment effects.

18. The positive connection between *innovation/competitiveness and employment* may be assumed in three cases: (a) if growth can be speeded up through technological advance, mainly via companies making use of R&D and the findings of home-grown research; (b) if there is a close connection between (increased) competitiveness and employment; (c) if technological advance, including corporate R&D and the greater use of IT, directly increases the competitiveness of the companies involved and, consequently, their employment capacity.

*Questionable assumptions on the relationship between innovation and employment...*

19. As far as the first presupposition is concerned, both theoretical and empirical studies stress that, in countries close to the productivity boundary, it is innovation that can speed up productivity most; while, in countries that are lagging behind the more productive countries, it is rather adaptation. In the second case, the shifting of the economy towards companies that employ new technologies and a skilled workforce may contribute to maintaining (and perhaps even slightly increasing) already high employment levels, but – and assuming that economic growth is significantly boosted – may only be of indirect assistance in preserving the “low-tech” sector, which is the number one employer in those OECD countries that are about as developed as Hungary. As for the third assumption, about competitiveness and employment capacity, the relationship is more likely to be negative than positive. The technological advances of the past decades have shifted demand for labour in favour of the more skilled workforce. In the majority of Western countries, technological advance was not counterbalanced by an economic growth sufficiently rapid to prevent a rise in the level of unemployment among unskilled workers and a relative decline in their real wages. There is plenty of empirical evidence in Hungary as well to suggest that capital investment-generating technological advance is not neutral in nature. Technological advance and the spread of IT may, in the long run, reduce the demand not only for manual labour, but also for white-collar jobs that require only secondary education, since it is the mechanization of cognitive, routine tasks that is at its core, and thus it jeopardizes simpler white-collar jobs.

20. Such a development route is the rule rather than the exception. It is not the case that, in recent decades, innovation-based technological advance and the concomitant increase in productivity have ensured higher employment levels. In the past 25 years, the European and Japanese economies have witnessed gigantic surges in productivity, but levels of employment remain basically unchanged (as opposed to the USA, where productivity and labour input have, in fact, been growing hand in hand). For the moment, a simultaneous rise in productivity and employment is an aspiration in EU countries as well, rather than reality. So what we have witnessed between productivity (and its booster, innovation) and employment levels is not a positive causal connection but a trade-off.

*...not supported  
by empirical  
analysis.*

21. Naturally, alongside the above three trade-offs, there are other dilemmas, too, that may emerge, either as generic interrelations or at the level of concrete, individual measures. So the above three examples should be regarded merely as illustrations, albeit very important ones. Consequently, it is an essential premise of our analysis that none of the horizontal criteria we are looking at should be made absolute and placed unconditionally before all the others. Most of the Operational Programmes can be evaluated on their own, according to individual criteria, but we must always bear in mind that the maximum consideration of one criterion requires sacrifices in some other area.

*Horizontal objectives can be achieved at the expense of each other...*

22. For instance, it is very important that there are some obvious trade-offs between effective development policy and the reduction in social inequality. The authors of this paper believe that the increase in inequality is not necessarily harmful all the time and in all the dimensions. On the contrary, there are cases where an increase in inequality is a *sine qua non* of development, whereas in other cases, the reduction in inequality may be an indicator of harmful processes. Let us take, for example, the high rate of people with high qualifications who move abroad. This may well lead to a reduction in inequality, but it also causes productivity losses. Conversely, if the country could manage to hang onto these people that would result in a clear gain from the perspective of productivity, but at the same time would increase inequality.

*...and none of them (including the reduction in inequalities) represent a value in itself.*

23. As was mentioned above, development policy measures may influence social structure by changing the immediate social environment in which the additional development aid arrives. Of course, this may lead to definitely positive results; however, the international literature on development policy emphasizes several threats from these funds: they may, in certain cases, do more harm than good. The thing is that large-scale external resources do not arrive in a vacuum, but rather in an institutional context, with specific interest patterns. The development policy mechanism – and government agencies in general – are only one element in this broad sociological context (albeit an extremely important element). It must also be stressed, though, that there are other factors that play a key role in terms of the social transformation effect of development policy, such as the current condition of the political system, the quality of the institutions that control the government, the character of the dialogues conducted with those affected and with NGOs, and, of course, the institutional system that holds those affected together. Apart from these, local communities and the public in general have a decisive role to play in the elaboration of the operational mechanism that will govern the development policy efforts.
24. The key to making successful use of extensive external resources is to ensure that these institutions co-operate in a positive, mutually supportive way, and do not lose sight of the development policy's original objectives. Otherwise those resources could easily become a curse. In fact, the mismanagement of external development resources may produce symptoms that have already been described in the international literature in the case of medium-developed countries: incentives that encourage rent seeking (influencing the regulatory process in such a way that is beneficial for a few players) may be reinforced; state control may be unnecessarily strict in sectors where it is not justified; development policy-makers may falsely believe that they know better than the individual actors on the market where the resources are best targeted. Furthermore, after a while taxpayers may become less vigilant and cease to exercise sufficient oversight over the distributors of the resources, which will encourage the latter to use the resources for their own purposes, given that these extensive external resources may be complementary to the resources centralized in the state budget. In view of that, there is a real risk that part of the development resources could become loss-making, or be frittered away and used ineffectively, especially in a country where the tax-awareness of citizens is defective.

*Large and sudden resources windfall may carry risks.*

25. The effectiveness of development policies, especially with regard to investments in infrastructure, may be reduced by rent seeking. At the level of concrete action plans, this could mean that resources are ultimately not necessarily directed to the most useful purposes, that the investment is not implemented by the actor who guarantees the most favourable conditions, and that productive resources are wasted. The distorting effect of rent seeking may manifest itself in all those instances where the state invests from community sources. In the case of the influx and distribution of large-scale resources that are not generated by Hungarian taxpayers, this risk is even greater. In extreme cases, external resources may prove harmful in the long run, as they make those participating in public procurement less sensitive to competition and divert the attention of the public, which would otherwise guarantee that public funds are spent effectively.

*Intensified rent seeking is very much likely.*

26. There is no question that the way the resources from EU funds are spent will be of great significance in terms of the country's strategic objectives, and the programmes financed from these sources will indubitably have major social distribution effects. However, as far as the trends of income and other inequalities are concerned, those tools that are outside the realm of development policy, such as taxation, the regulation of the labour market, the operation of the large welfare systems, as well as other processes that are external to direct political decision-making, can be expected to have a more significant effect.

*The actual social effects anticipated depend largely on the quality of other social-political institutions.*

27. The Operational Programmes will also certainly have an indirect long-term effect on Hungarian society, in terms of the way the planning processes, the preparatory co-ordination, the institutionalization of the execution, and the evaluation are arranged. During implementation, organizations are set up and restructured, power relations are created, roles are socialized and behavioural rules are set. In other words, an institutional system and a sub-culture are created that did not exist before, or that certainly were not so powerful. This brings with it both opportunities and challenges. Ideally, a professional new state apparatus will come into being, reforming the state administration, which is now suffering in many places from institutional paralysis. At the same time, there is a risk that the new organizations simply take over the present methods of operation.

*The institution-reforming role of the development policy is important.*

28. The concept of social capital appears in many places in the Operational Programmes, often under various guises (trust, generalized trust, community, solidarity, the activity of the civil society). But for a development policy to be truly sensitive to social capital, existing international experience of the development of social capital must be taken seriously. The most important lesson that can be learnt is that a public policy that is oriented to social capital presupposes a diversion from the "normal" development practice, as there are gigantic forces opposing the implementation of a development practice that is seeking to act against the routine and the bureaucracy of centralized development. Therefore, the only chance of successfully changing paradigms is if the representatives of local interests and of the central distribution trust one another and have excellent relations, i.e. if the social capital is strong between the participants.

*Success depends on how sensitive it is to the institutionalized and non-institutionalized forms of social capital.*

29. During the planning and implementation of a policy that is sensitive to social capital, quick and simple solutions may have the opposite effect to what was expected, and this may lead to formal interventions, to money being thrown about, and, in the end, to the discrediting of the concept of social capital. For example, an expansion of NGOs for its own sake may be highly imprudent, as is the assumption that the involvement of local bodies in labour market intervention will automatically generate more equal opportunities.

### III. THE GENERAL LESSONS OF THE HORIZONTAL EX-ANTE EVALUATION

30. During the preparation of the Operational Programmes the planners took for granted the development sums available from the EU and related domestic sources, and tried to distribute them rationally. According to the information we have at our disposal, it may be assumed that, in the overwhelming majority of the Operational Programmes, this will not lead to public finance problems. The ratio of the Hungarian co-financing obligation is known, and can be calculated by the budget planners. The issue of long-term financial viability may emerge in the case of a few Operational Programmes, principally in the case of the large projects. Such risks may emerge during enlargement of the state-financed institutional system, as well as in the case of publicly financed and managed investments.

*Precision of medium- and long-term public finance effects is.*

31. On the basis of the data currently available, analysis of the effects of the interventions on public finances may be carried out at the level of the Operational Programmes as a whole. Although this raises a number of methodological questions as to the calculability of the growth sensitivity of public finances, on the basis of the data and the calculation methods available, the public finance effect may, in fact, be estimated on an aggregate level. To estimate the growth effects of the individual Operational Programmes, programme-specific public finance sensitivity indicators should be calculated. This, however, cannot be done on the basis of the data available.

32. In this study, the long-term effect mechanisms of three types of Operational Programme have been identified: (i) the institution-building Operational Programmes definitely induce long-term expenditure, but they do not necessarily represent an additional expenditure burden on top of the (baseline) case in which there are no interventions. On the contrary, in the case of successful institution-building, some savings can even be made, thanks to the lower need for live labour and lower operational costs, but these are not expected to be significant; (ii) the infrastructure-developing Operational Programmes may induce significant long-term cost determinations. Here the question is what proportion of the operational costs have to be covered by the central budget and the local governments, and what proportion can be collected from usage fees; (iii) the Operational Programmes that support private investment do not generally result in additional operational costs for the state.

*The extensive infrastructure programmes carry a major risk to public finances.*

33. According to our estimates, structural interventions may raise the long-term average value of potential output from 3.4–3.5 per cent to about 3.8–3.9 per cent in the period between 2007 and 2013. The 0.4 per cent annual average economic growth surplus, calculated with the 0.25 sensitivity co-efficient included in the December 2006 Convergence Programme, may improve the balance of public finances by 0.1 per cent of GDP.

*The results of the Operational Programmes may improve the balance of public finances by an annual average of 0.1 per cent of GDP.*

34. The co-financing from domestic sources of structural interventions between 2007 and 2013 will amount to at least 1,132 billion Hungarian forints (HUF) at 2006 prices, assuming a euro rate of exchange of 265 HUF. This sum is arrived at simply by adding together the data on co-financing needs contained within the financial tables of the Operational Programmes. In the financial tables of all the Operational Programmes, the planners invariably did their calculations using the 15 per cent minimum domestic co-financing ratio prescribed by the EU. But in reality it is almost certain that the actual domestic co-financing ratio will be higher than that: in the case of income-generating projects, for instance, the 85 per cent EU financing ceiling cannot be reached in the first place. On the other hand, it is also likely that only part of the funding theoretically available to Hungary between 2007 and 2013 (24 billion euros, calculated at current exchange rates) will be accessed, which will then naturally reduce the domestic co-financing needs.

*Domestic financing is expected to be higher than 15 per cent.*

35. According to the Union's additionality requirement, in any given financial programming period, the average annual expenditure – calculated across the whole period in question – on structural development (including the various investment, educational and training expenses) financed from state sources cannot drop below the average annual level for the reference period. This means that between 2007 and 2013, the annual average public finance expenditure on development purposes cannot fall below the average of the 2004–2005 reference period. This requirement is supposed to ensure that the EU resources appear as additional, complementary sources in the country's development policy, over and above domestic expenditure. This requirement is in clear opposition to the government's intention of replacing Hungarian funding with EU funding, which is justified by the necessity to stabilize public finances and by the Maastricht convergence criteria concerning fiscal discipline.

*The opportunity to replace domestic structural development expenditure is limited.*

36. From the Hungarian point of view, the situation is rendered even more difficult by the fact that in the period 2004–2005, as a result of extensive motorway construction, education reform and other large-scale state development programmes, the level of public development expenditure was outstandingly high. In order to counterbalance the resulting high pressure on public expenditure, in the autumn of 2006 the government suggested modifications in the calculation of the additionality requirement to the European Commission. As far as we know, no agreement has yet been reached on this between Brussels and Budapest.

37. The Commission will control compliance with the rule of additionality first when the New Hungary Development Plan is evaluated, then in 2011 (that is when review of the actual figures of the additionality requirement becomes possible), and finally in 2016. If the final evaluation finds that Hungary failed to comply with the rule of additionality, part of the EU funds will have to be paid back.

38. We can attempt to estimate the growth effects of Operational Programmes on the basis of international experience – primarily ex-post studies concerning the use of EU resources in former cohesion countries. Empirical findings clearly indicate that, at both country and regional level, the actual growth effects are smaller than in macro-simulation models that assume optimum utilization, and therefore show significant additional growth. The determining cause of this is the imperfection of institutional factors. In the case of investments, aside from – and often instead of – the productivity assumed by the macro-simulation models, in many instances it is realistic to take account of the crowding-out effect. On top of all that, in the period between 2007 and 2013, Hungary will carry out a major fiscal adjustment. Given this – and even assuming an effective bureaucracy allocating the resources – it may well be that, even though legally additionality is complied with, economic additionality will be infringed – that is, the structure of investments will shift in a suboptimal direction. On the other hand, the adjustment might result in removal of those institutional barriers that (acting against the principles of economic stability and economic freedom) were slowing down economic development (regardless of the effects of the Operational Programmes).

*The growth rate may be smaller than expected ...*

39. Summing up the effects of the Operational Programmes on development factors, it is probable that they will have a positive effect on investments, innovation and R&D, rather than on the elements of human capital and employment. Employing rough estimates and strongly hypothetical assumptions, we may suppose that, compared to the average figure for the period 2007–2013, the additional growth effect of the Operational Programmes will be between 0.3 and 0.4 percentage points annually. The effect is likely to be rather stronger in the second half of this period. Of the individual factors, it is the effect on capital and on total factor productivity covering the institutional factors that will be most significant, while the effect on labour will be marginal. There is a concern that, though the fiscal adjustment will have a beneficial effect on labour market activity, this will be coupled with a growth not in employment but in unemployment (while productivity will grow). In terms of the interventions of the regional Operational Programmes, a strengthening of the agglomeration effects is to be expected. Though this is not necessarily a bad thing from the point of view of aggregated growth, it will result in distortion of the growth dynamics between the regions, as well as between regional centres and peripheral small areas (to the detriment of the latter), and thus in wider differences in development.

*...productivity may improve, employment not necessarily.*

40. We believe any approach that places at the centre of development technological advance based on domestic innovation and the accelerated spread of innovation to be unfavourable in terms of employment, and to be uncertain in terms of growth. We are convinced that those interventions are beneficial which are neutral on the issue of innovation versus adaptation; which do not presuppose a direct correlation between domestic innovation, productivity (“competitiveness”) and employment; and which remove the barriers not to productivity, but to *growth*. At present we feel that too much emphasis is placed on R&D, on business clusters and, at times, on expected individual business grants, while more importance should be ascribed to micro-credits, the provision of guarantees, the regional accessibility of labour markets and the development of the institutional system supporting the reproduction of human capital.

*More emphasis on removal of micro level barriers to growth could improve employment figures. The extensive role of direct production subsidies would better be decreased.*

41. The OPs are characterized by a duality in terms of social distribution effects: as far as short- and medium-term effects are concerned, the development programmes that aim to strengthen the competitiveness of the Hungarian economy are expected to increase income and territorial inequalities (as well as inequalities between settlements), while the programmes that target the development of human resources are likely to reduce inequality in terms of access to public services, and, by increasing employment levels, should also reduce inequalities of labour and household income inequalities.

42. The overall effect of the factors depends largely on the spending preferences during implementation, as well as on the effectiveness of the programmes. We therefore expect the inequality effect of the domestic utilization of EU development resources to be slightly positive in the period between 2007 and 2013 and beyond. However, we do not expect the structure of society to be anywhere nearly as dramatically affected as in the period following the change of regime after 1990. Winners in this process will indubitably be the highly qualified young professionals. Also, immediate beneficiaries of the government programmes will include those groups that are able actively to influence the distribution of resources (rent seekers) and those who simply receive the funds: investors, service providers and those working in development organisations. The central and the local public administration bodies will also profit. In the long run, the programmes aimed at the early development of human capital will result in the differences within the younger generations narrowing.

*Distribution effects depend largely on the actual allocation of resources, but inequalities are more likely to grow.*

43. We expect the development programmes to be followed by a growth in inequalities between the generations – specifically between the younger generations and the middle-aged/older generations. The generation gap that can arise in rapidly converging economies may become a source of tension, which, working through the system of political institutions, could indirectly actually hinder economic growth.

44. Just as with many other social-political issues, poverty reduction is not a primary objective for utilization of EU resources, although the programmes may indirectly contribute to a reduction in poverty among certain population groups. The best way of reducing poverty is by getting inactive and unemployed people into employment, and, one way or another, virtually all the programmes have that as a goal. The question is whether the effect of the programmes will last only as long as the funding. Poverty should not be seen merely as lack of income; indeed, income poverty can only be ameliorated by alleviating the other “poverties” (housing, settlement, culture, access to institutions, physical and mental health, etc.). The programmes here do not seek to tackle poverty comprehensively.

*Poverty may decrease, but the extent to which this may be sustained is unknown.*

45. The problem of deprived areas is often a cumulative one: aside from an underdeveloped economic environment, there is frequently a lack of income, remoteness, a poorly developed transport infrastructure and a lack of basic services – even though the dominance of one aspect disguises the cumulative disadvantages. Of all the disadvantaging factors, low activity rates may be singled out as the key to the whole development policy; and, at the local level, measures to boost employability are one of the most important interventions that can be made.
46. In the regional Operational Programmes, as part of the development of the local economy, those elements that boost employment and help enterprises are regarded as a priority. But employment seekers living in deprived areas, where there are few job opportunities, will still have to resort to migration or commuting to gain access to income. Besides, the territory-based development policies consider urban development a priority – partly on account of EU expectations, and partly because of the reality of absorption capacity. This, however, will result in the further impoverishment of out-of-town settlements, which suffer from the urban concentration of both enterprises and state or local government- financed institutions. Furthermore, it will result in extreme disadvantage for micro-regions with no urban centres, unless there is a dramatic improvement in the accessibility of peripheral areas. Unfortunately, the modernization of secondary roads is nowhere to be found among the goals of transport development, and it receives a mention as priority in only one part of the regional programmes.
47. Territorial and social inequalities are interdependent; but that does not mean that social inequalities would just disappear if the territorial inequalities were eliminated. The paradox of the development policy model focusing exclusively on territorial development is that it actually increases social inequality, because the chances are that those who are poor but live in areas that are not deprived will not have access to the opportunities created by the development.

*The reduction in regional inequalities could be facilitated by an improvement in the accessibility of micro-regions, but this is not the focus for development.*

48. Though we by no means want to downplay the benefits, we do believe that the division of responsibilities between the OPs and the regional Operational Programmes (ROPs) may lead to problems. Though we by no means want to underestimate the benefits, we do believe that the division of responsibilities between the OPs and the regional Operational Programmes (ROPs) may lead to problems. For example, if the Social Renewal Operational Programme (TÁMOP) is responsible for everything from the perspective of disadvantage, then equal opportunity issues will be downplayed in every other Operational Programmes. If – as is suggested by several references in both Operational Programmes – the relationship between TÁMOP and TIOP is such that TIOP is nothing but TÁMOP’s “hardware”, providing the necessary infrastructure, then even this programme, which otherwise is “sensitive to disadvantage”, will remain non-sensitive, on the principle that it is TÁMOP’s job to tackle such issues, it being the “software” behind the measures, setting their goals, their beneficiaries, the principles governing their operation and their operational mechanisms.

*The present division of work between OPs and ROPs blurs the lines of responsibility in terms of balancing inequalities.*

49. A poor division of responsibility may also prevent the surveys that are designed to measure the effects of the Operational Programmes on disadvantaged groups from supplying adequate information for the indicators of more than one OP. From the perspective of sustainability, it is vital that they do, and it would also enhance the quality of the analysis.

50. Because of very important considerations of content (rather than of form or methodology), this report gives high priority to the system of indicators necessary to monitor the programmes. Appropriately chosen indicators are fundamental to any effect-measuring and assessment. The appropriate indicators must be well defined right from the start, and those tools must also be available that will allow indicators to be produced at the right intervals throughout the implementation cycle. Consequently, we find it quite worrying that the way the indicators are produced – that is, the source of the data and the way they are gathered – is often not given; or, where it is, a sizeable proportion of the indicators consist of indices that are inadequate for evaluation of the effects. We have regularly come across indicators proposed in the OPs that do not measure the effect of the intervention at all: that is, they do not use a control sample to establish the effect of the intervention.

*The system of indicators must be thoroughly reconsidered. In many cases indicators must be set for control groups as well.*

51. One of the frequent indicators is, in fact, satisfaction; but it is highly questionable whether this is an adequate indicator. In the case of satisfaction, the problem is not simply that it depends on several factors other than the intervention to be measured (which is the case for every indicator), but also that, as an attitude, it behaves differently from “objective” factors. For instance, it is extremely sensitive to transient effects that exist only at the time of the measurement. Furthermore, we can find a number of very different causes behind the high or the low value of satisfaction, depending on how important the given service is for the respondent and on how important s/he thinks it is for others. To give an example, disadvantaged people are unlikely to be more dissatisfied with e-government or the quality of public administration; instead, they are more likely not to have an opinion on the matter. There may be several reasons for that (e.g. they are not aware of the existence of these things, or they are less inclined than average to form opinions), but the fact of the matter is that, in their case, measuring satisfaction is a more complex task than the authors of the Operational Programmes currently assume.

52. Several Operational Programmes mention the need for targeted data collection. We also regard this as essential. Of course, it may be the case that, with some disadvantaged groups like the Roma, or with regard to disabled people, this method cannot be applied, since, under legislation governing the protection of personal data, no data can be gathered on sensitive characteristics. This, however, is in sharp contrast to the criteria of effective programme measurement.

*The availability of data sources usable for the production of indicators is limited.*

#### IV. RECOMMENDATIONS

53. Our evaluation report also includes recommendations, in order to make implementation of the programmes and the action plans drawn up along the horizontal dimensions as effective as possible in terms not only of the main objectives, but also of their positive side-effects. Our recommendations seek to improve the quality of the monitoring of the programmes, and to provide benchmarks for the interim and the ex-post recommendations. The recommendations set out here are probably most useful for the planners involved in drawing up the action plans.

*Our recommendations seek to assist the implementation phase.*

54. Employment also plays a key role in the other evaluation dimensions analysed. Raising the level of employment has a beneficial effect on growth and on public finances; it is essential for the reduction of social inequalities, and for the elimination of absolute poverty. From the point of view of increasing long-term employment, we consider those interventions to be beneficial that are neutral on the issue of innovation versus adaptation, and that remove barriers to development. We therefore recommend keeping – or possibly increasing – the proportion of programmes that currently comply with these criteria, such as: micro-credits and loan guarantees for small enterprises; an improvement in the accessibility of urban labour markets; modernization of the labour market IT systems; the concentrated

*Employment is the key; the barriers to development must be removed, with less emphasis on direct support.*

development of tourism; the integrated development of children's institutions and primary schools; the promotion of health and rehabilitation linked to a change in the disabled pension system. In order to reinforce the overall employment effect, we recommend strengthening the above programmes, mainly at the expense of increased R&D, business clusters and generic healthcare development, and of specific funding for individual companies. We also recommend that the planners should not employ public workers to cover the temporary extra labour needs of the construction industry.

55. In general, in the time still available for implementation, we believe it would be warranted to favour investment in human capital over investment in infrastructure, as the former is likely to bring higher yields on the output side. Especially important, we believe, are those programmes to stimulate investment in human capital that are of benefit in the earliest stages of a person's life – namely in the phases of pre-school and early public education. Such tools obviously provide long-term returns on investment rather than short-term effects, but in fact they can be more successful – both as incentives to growth and in terms of reducing inequality of opportunity – than active labour market policies. It is not obvious, though, how the reduction in inequality that is expected to result from these programmes will manifest itself on the output side – that is, in the structure of inequality.

*Greater emphasis must be placed on investment in human capital and less on infrastructure development.*

56. We recommend giving greater emphasis to programmes that target the education of less well qualified strata of the population, particularly to those that seek to break the intergenerational cycle of educational underachievement. This is important from the point of view both of increasing employment levels and of reducing poverty. The best way of breaking this cycle is through appropriately chosen development programmes that target the school system.

*Special programmes are needed to prevent the intergenerational cycle of educational underachievement.*

57. As concerns efforts to improve the status of the Roma, the most important goals are the following: to stop them falling behind mainstream society; to reintegrate excluded groups; and to eliminate discriminatory situations that affect them. These goals can best be achieved through complex programmes, and it is such interventions, therefore, that we recommend. We consider it essential to develop a comprehensive Roma integration programme, whose focus would be on improvement in schooling and on an increase in levels of employment (possibly linked to the government's urban renewal programme), with initiatives aimed at desegregation and the infrastructure development of underdeveloped areas inhabited by a large number of Roma. As for programmes that target the Roma (either exclusively or inclusively), we think it would probably be worth defining them as the target group, as this way we could prevent them from not being included at all in concrete proposals.

*A Roma integration programme is needed.*

58. In order to promote equal opportunities for physically disabled people, government agencies must insist on proposals that offer comprehensive solutions that remove physical obstacles – and barriers to communication as well.

*The removal of physical obstacles and barriers to communication must be a criterion in the evaluation of investment proposals.*

59. We recommend that the planners include calculations on the medium- and long-term public finance effects of development in the case of investments and institutional development programmes managed or maintained by the state. The requirement that calculations concerning the effects on public finances be published may be sufficient to ensure that considerations of sustainability are not limited to the (undeniably important) environmental and social aspects, but also take account of financial sustainability. In order to facilitate such pre-calculations, it is of huge importance to create and set up a macro-model that can aid prediction.
60. We recommend that, especially in the case of large-scale investments, not only compliance with the formal (legal) additionality criteria be examined, but also whether the particular development does not squeeze out other investments, and whether the desire to spend the “windfall” at all costs does not distort the structures of communal investments in a suboptimal direction.
61. We recommend that every larger investment should be preceded by a cost-benefit analysis, to determine which investment is likely to be most effective. A cost-benefit analysis should be a compulsory element in all proposals for funding over a set amount, and acceptance of the proposal must be tied to achievement of the results calculated.
62. Selecting the right indicators is key to measuring the effectiveness of the development programmes, and to identifying effects, both intentional and unintentional. Even the best-specified indicator is only usable, however, if everything is in place to allow it to be produced – that is, if an adequate information base is available.
63. We recommend having a much finer breakdown of indicative financial tables, and a clear explanation of the connections between the various OPs, supported by financial and technical indicators.

*A macro-model supporting the assessment of development effects has to be set up.*

*Economic additionality and crowding out effects must also be analysed.*

*Cost-benefit analyses should become a compulsory formal element in programmes.*

*For appropriate monitoring, it is necessary to have indicators and to create their information infrastructure.*

*More detailed indicative financial tables are needed.*

64. In terms of the creation of indicators, we recommend comparing the assisted and the unassisted sections of the population, instead of using indicators that reference the whole population (which do not measure the effects of a programme at all) or that exclusively treat the direct beneficiaries of the programmes (which are inadequate for any evaluation). An exception can be made in the case of those programmes where the benefits are quite diffuse and where there is no chance of continuous assessment. Comparison with an appropriate control sample is difficult in some cases, because there is no regular data collection on the target variable. However, in the case of indicators based on the trends of gross added value, employment and exports, comparison is feasible, because the data in question are fully available in corporate balance sheet archives. Similarly, a number of settlement-level variables are accessible in the Central Statistical Office's TSTAR database, after appropriate cleansing and ordering. Where the target variable is also influenced by factors external to the programme, the evaluators should strive to measure trends in both the assisted and the unassisted areas. Though a far from perfect substitute for professional programme evaluation, this is feasible and would give a rough idea of whether the ROP has succeeded in having a significant effect on its target group. In those cases where measuring of this type is impossible – for example, because we have services created for a large number of service users – evaluators should abandon effect-measuring experiments altogether, and use indicators that grasp the volume of the programmes.

*Programme evaluations should be based on comparison of the assisted and the unassisted groups: control group indicators are needed.*

65. It is extremely doubtful whether “satisfaction”, repeatedly mentioned in the programmes, is an adequate indicator. We therefore recommend abandoning this type of indicator or creating the conditions for a more complex measurement.

*Success should not be measured using indicators of satisfaction.*

66. In programmes where it makes sense to do so, follow-up surveys should be conducted among the individuals and households taking part, both during the programme's roll-out and after its termination, for however long it is deemed necessary in the case of any given programme. This could ensure measurement of the yield on investment (by applying appropriate cost-benefit analyses), or the ex-post evaluation of the effectiveness of the programmes. Some of the Operational Programmes in fact explicitly name such surveys (career tracking, cohort survey), and we recommend that this should be done in all cases where tracking is not feasible in other ways. Data collected in this way can be used optimally and can best assist political decision-making if they are widely accessible and researchable.

*A follow-up survey conducted among the participants is a condition of evaluation.*

67. We recommend that the effect of Operational Programmes on disadvantaged groups should be assessed in a centralized survey. In fact, it is important to note that these surveys should be conducted prior to commencement of the Operational Programmes, so that, once the programmes have run their course, an evaluation of the development policy's tasks on completion can be made relative to the data describing the initial position. In the absence of an appropriate reference basis – for example, in the absence of data describing the initial status – even the best-devised indicator is nothing but a figure that is very hard to evaluate in itself.

***Status assessment and follow-up surveys are necessary in the case of disadvantaged groups.***

68. As far as disadvantaged social groups are concerned, there are at least two groups where serious data-collection problems could emerge: the Roma and the disabled. This is mainly because of data protection rules: according to the present regulations, no personal data (such as ethnicity or physical and mental health) may be collected for administrative purposes. Another difficulty is funding, as targeted surveys of this type are resource-hungry. However, unless targeted surveys are conducted, lack of information precludes the preparation and analysis of indicators – even assuming they existed. We recommend developing a methodology of data collection that focuses on tracking programmes, harmonizing data protection regulations, and launching a series of repeated and territory-specific surveys, even at the expense of the provision of technical assistance, so that indicators referring to the Roma and the physically challenged may be produced.

***In order to achieve professional programme evaluation, administrative data management rules are to be reformed.***

69. As was pointed out earlier, in evaluating policy decisions (such as decisions on development policy), we must consider not only their effectiveness and their cross-sectional fairness, but also their economic and political sustainability and appropriateness, plus their fairness and division of risk between co-existing generations. We therefore recommend that similarly to the system of National Accounts, which shows, for example, the flow of income between the government, companies and households, a system of accounts should be set up (National Transfer Accounts) based on the already existing US model to track the flow (the redistribution) of public and private transfers between co-existing generations, as well as the consequent accumulation and dispersal of wealth. We also believe that Generations Accounts should be attached to the annual budgets to assist in the identification of the effects on future generations.

***We recommend the introduction of a system of generational accounts to measure the joint generational effects of fiscal and development policies.***

70. The most important change required to make social dialogue successful involves the complete restructuring of planning as such. Here there are two requirements: the first is for a realistic timescale to be set for planning that is independent of political considerations. An intrinsic part of this is evaluation of documents at various stages of readiness. This seemingly trivial recommendation would significantly improve the work pattern both of the planners and of their social partners. This modification, although it would not set the working methodology of Hungarian public administration on a new track, would certainly increase the legitimacy of the documents. The other requirement is for the involvement in the planning process of a larger circle of highly professional partners – right from the point when the strategy is first elaborated. This is not yet a realistic proposition, but it is worth considering as a long-term objective, as the experience of the partners increases. This is necessary in order to improve the acceptability and intelligibility of the documents.

*In the social partnership process, greater emphasis must be placed on appropriate timescales and transparency.*

71. In order to increase the effectiveness of the dialogue, both parties – that is, the planners and the stakeholders – need comprehensive, professional training. The primary objective of such training would be to make all parties involved aware of what social dialogue is about, what methods there are, and what the process is like.

72. This training could be given a framework if, as has been requested by several groups, a law were to be passed on the representation of interests. Such a law would regulate the nexus between the government apparatus and the dialogue mechanism, and stipulate what regional and sectoral criteria to adopt in the selection of partners. Another aspect to be tackled is the independence of the partners: as long as the organizations rely on ministry funding, they cannot effectively assert their interests for fear of losing their resources.

*Clear rules of the game are needed for regional and sectoral dialogue structures.*

73. Aside from these concrete recommendations, what is also required in the process of partnership dialogue is a change in mentality – to make the two sides open to, and welcoming of, co-operation. This is certainly a long-term goal, as players can only learn by experience the advantages and the added value of such dialogue. Regulation, training, the techniques and methods adopted, as well as the agreements reached and the trust that is built up in the process, are all parts of the joint actions that could form the basis for a vision of a common future.

*The creation of an atmosphere of trust and acceptance should be given priority in the planning process, too.*

## V. SUMMARY TABLES

Our analyses revealed that some measures (by “measures” we mean all the programmes linked to the various priority axes) exert the same effects. Consequently, we found it useful from the point of view of cohesion to break the priority axes down into internally homogeneous, but externally different, groups. Naturally, such a grouping can be done in several ways, but we opted for the way illustrated in the table that follows. Here there are certain measures that need to be interpreted on their own, as their effects are specific and do not overlap with other measures (such as, we believe, enhancement of the competitiveness of SMEs, or the priority axis dealing with employability). However, there are groups that, by our criteria, cannot be differentiated in terms of their effects, so the summary tables treat them as a whole (for instance, we included all the environmental protection measures in one group, and the priority axes dealing with the development of state administration and with electronic public administration are discussed together).

### Grouping of the priority axes (major types)

Types of measures	Measures (priority axes)
<b>Enhancement of competitiveness</b>	GOP1: R&D and innovation for the enhancement of competitiveness; SROP1: enhancement of competitiveness; KMOP1: the innovation and enterprise-oriented development of a knowledge-based economy
<b>Enterprise development</b>	GOP2: the complex development of enterprises (primarily SMEs)
<b>Business environment development</b>	GOP3: strengthening of a state-of-the-art business environment; KMOP2: development of the framework of competitiveness; KMOP3: strengthening the attractiveness of the region
<b>Development of small-sized enterprises, micro-programmes</b>	GOP4: JEREMIE-type financial products
<b>Tourism development</b>	ROP3: strengthening the potential of tourism
<b>Employability</b>	TÁMOP1: development of employability, incentives for entering the labour market
<b>Development of public education and life-long learning</b>	TÁMOP2: improvement of adaptability. SROP3: securing quality education and access to all
<b>Health promotion and social integration</b>	TÁMOP5: health promotion and strengthening of social integration and participation
<b>Development of the physical preconditions of human infrastructure</b>	TIOP1: development of the educational infrastructure; SIOP2: development of the healthcare infrastructure; SIOP3: developing infrastructure supporting participation in the labour market and social integration; TIOP4: development of cultural infrastructure in the service of community-building; TIOP5: development of human infrastructure; KMOP4: development of the institutional system of human public services
<b>Supporting the human conditions of R&amp;D and quality education</b>	TÁMOP4: development of human resources in the field of quality education, research and innovation
<b>The development of regional centres by improving accessibility and public transport</b>	KÖZOP1: the international accessibility of the country and its regional centres; KÖZOP3: integrating the modes of transport, development of the integration and the transport infrastructure of economic centres; KÖZOP4: development of the public transport of cities and suburban areas; ROP2: development of regional and local transport infrastructure (1)

Types of measures	Measures (priority axes)
<b>Regional accessibility</b>	KÖZOP2: improvement of regional accessibility; ROP2: improvement of regional and local transport infrastructure (2)
<b>Development of areas and settlements</b>	ROP4: development of settlements and areas; KMOP5: urban renewal
<b>Environmental protection programmes</b>	KEOP1: clean and healthy settlements; KEOP2: good water management; KEOP3: good management of natural resources; KEOP4: increasing the use of renewable energy sources; KEOP5: improving energy efficiency; KEOP6: providing incentives for sustainable production and consumer habits
<b>Development of state administration and organizations</b>	ÁROP1: renewal of processes and organizational development; ÁROP2: development of the quality of human resources; ÁROP3: improvement of governance and renewal capabilities; EKOP1: renewal of the public administration and of the internal processes and organizations of public administrative services; EKOP2: infrastructure development supporting access to public administration services; EKOP3: priority development areas

Here we present the relationships between the five dimensions, analysed in two separate groups, formed according to their different characters. In the case of the first one, we assume that the employment effects of the given measures will influence economic development, and could even have consequences for the revenue and expenditure sides of public finances. This assumption is illustrated in Figure 1, and the relationships are described in Table 1.

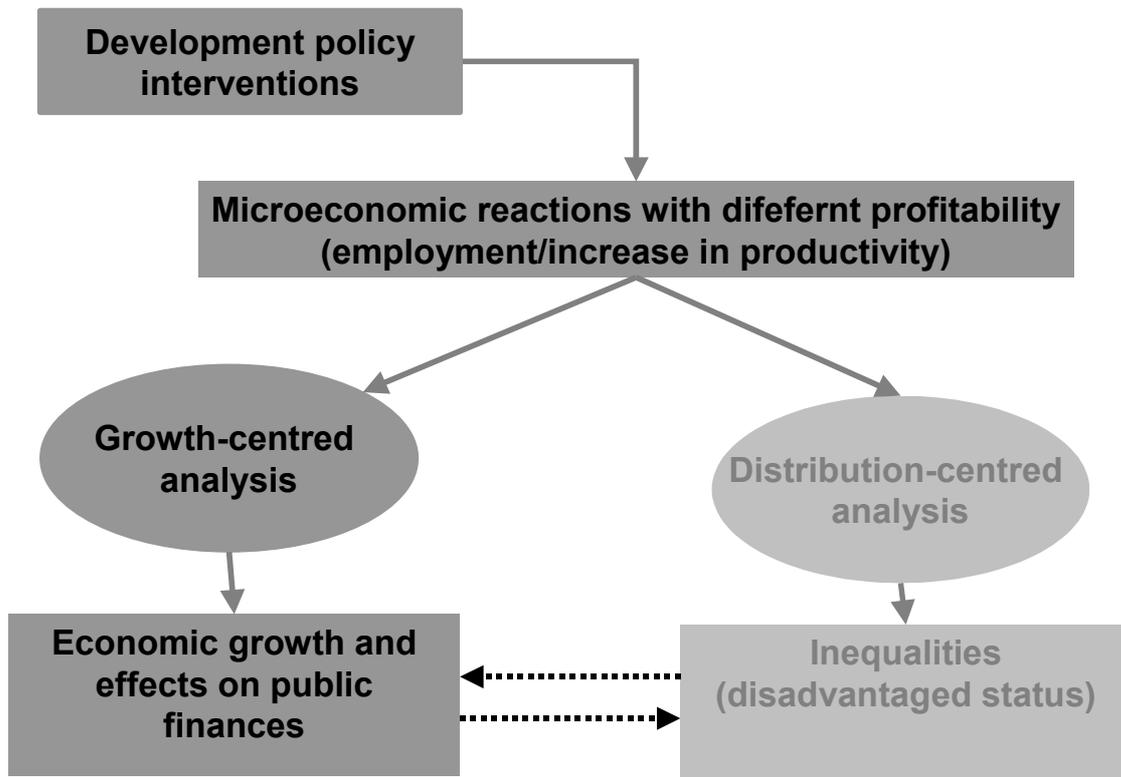
In the second case, analysis focuses on distribution effects. Here, as illustrated by Table 2, our assumption was that the various micro-economic reactions to development policy effects may generate or reveal inequalities between the different economic players and employment groups. In this latter case, our question refers not to how large the aggregated output is going to be, but rather to how that will be distributed between the members of society.

In discussing micro-economic effects, we used the phrase in a broad sense. In fact, we believe that investment in human infrastructure (by contributing to the development of human capital) would ideally become a direct economic factor if programmes are well planned.

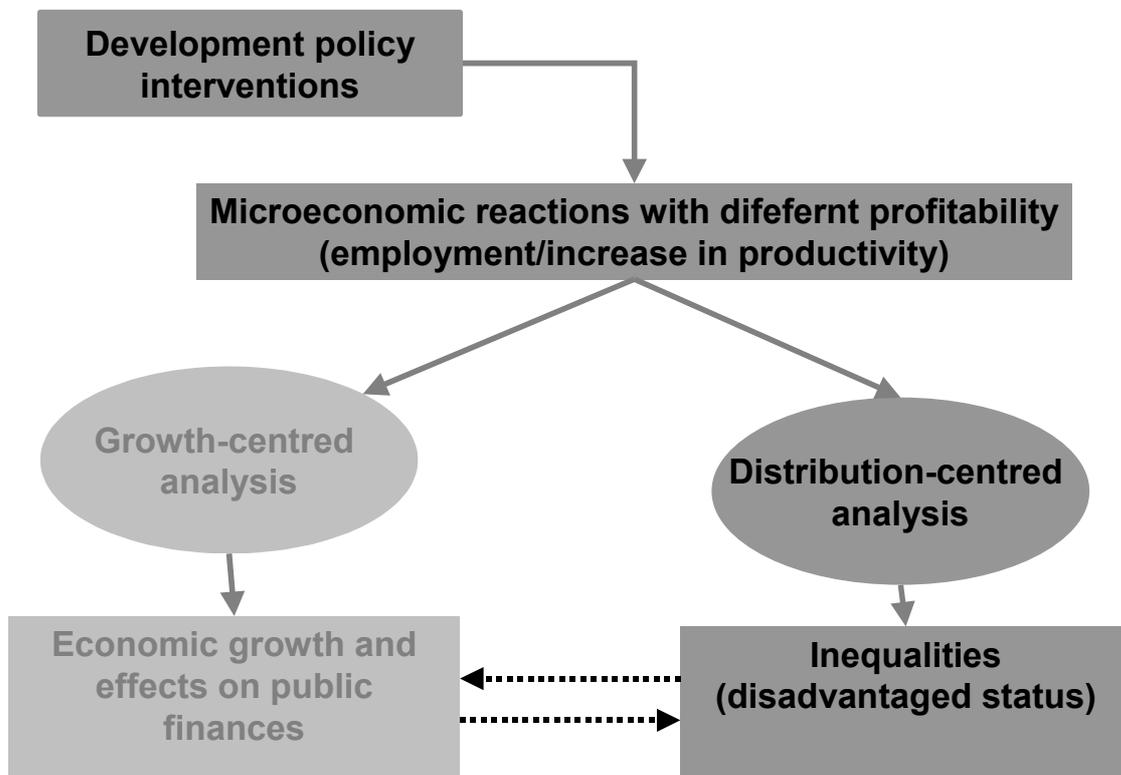
So when the level of qualifications of the labour force rises, and its health is improved, its labour market adaptability is bound to improve. This results in a larger income-generating capacity – first for the workers themselves, and then for their immediate environment (their family, the settlement where they live). Eventually, all that adds up to the growth of added value for the whole economy.

The tables therefore sum up those effect mechanisms that we believe the development policy may induce in the five horizontal dimensions analysed. Detailed explanations of the individual summary statement may be found at the end of the in-depth volume, which provides a detailed analysis of the five horizontal criteria.

**Fig. 1. The evaluation framework of the development policy 1.**



**Fig. 2. The evaluation framework of the development policy 2.**



**Table 1. Growth-centred analysis: the relationships between the measures in terms of employment, economic growth and public finance determinations**

Types of measures	Employment effects	Economic growth	Effects on public finances
<b>Enhancement of competitiveness (GOP1, ROP1, KMOP1)</b>	There is no strong correlation between competitiveness and employment; due to the substitution effect (unskilled labour) and supply limitations (skilled labour), even in the short to medium term, negative effects are possible.	Agglomeration effects in the development centres (resource-concentration in the development poles).	The growth effect may bring in supplementary tax revenues, but it may result in direct expenditure, if, due to the diversification of employment opportunities, the proportion of the groups driven out of the labour market (and thus requiring social transfers) increases.
<b>Enterprise development (GOP2)</b>	There is no strong connection between corporate competitiveness and employment levels; in the short and medium term, negative effects are possible due to the substitution effect.	The competitiveness of small enterprises is likely to improve, but at the macro level, significant deadweight losses and crowding-out effects must be expected.	Tax revenues may increase and social transfer savings may be generated if the development of small enterprises reduces the proportion of population groups requiring social transfers.
<b>Business environment development (GOP3, KMOP2, KMOP3)</b>	This intervention can remove barriers to development; enhanced local regional attractiveness may lead to a growth of employment in the tourism sector.	The removal of endogenous barriers may lead to agglomeration effects; local regional activity and tourism may be enhanced.	As a result of additional economic growth, supplementary tax revenues may be generated.
<b>Small enterprises development, micro-programmes (GOP4)</b>	This intervention may remove barriers to development.	Enhancement of investment activity in small enterprises.	Generic positive effects without direct expenditure.
<b>Tourism development (ROP3)</b>	The intensification of tourism may lead to a boost for employment.	The enhancement of tourism and employment, with effects differing by region.	As a result of additional economic growth, supplementary tax revenues may be generated.
<b>Enhancement of employability (TÁMOP1)</b>	This intervention may enhance employment-seeking activity, and the core competences constituting the basis of adult learning may improve adaptability.	The development of human capital broadens the available workforce, thus generating supplementary added economic value.	The proportion and neediness of social groups excluded from the labour market and requiring social transfers decreases.
<b>Development of public education and life-long learning (TÁMOP2,</b>	This intervention can be expected to lessen the family, territory and school-based disadvantages that hinder the attainment of	The development of human capital broadens the available workforce, thus generating supplementary added	The proportion and neediness of social groups excluded from the labour market and requiring social transfers

Types of measures	Employment effects	Economic growth	Effects on public finances
TÁMOP3)	core competences.	economic value.	decreases.
<b>Health promotion and social integration (TÁMOP5)</b>	A slight enlargement of employment may be expected as marginalized social groups become more integrated.	The development of human capital broadens the available workforce, thus generating supplementary added economic value.	The proportion and neediness of social groups excluded from the labour market and requiring social transfers decreases.
<b>Development of the physical preconditions of human infrastructure (TIOP1, TIOP2, TIOP3, TIOP4, ROP5, KMOP4)</b>	Direct employment effects are difficult to estimate, but in some cases marginalized social groups can be expected to be integrated into the labour market.	The direct growth effect of investments is uncertain, and the direct effect is difficult to measure. There may be an intensification of agglomeration effects.	The proportion and neediness of social groups excluded from the labour market and requiring social transfers decreases.
<b>Supporting the human conditions of R&amp;D and quality training (TÁMOP4)</b>	No direct employment effect can be expected; indirect effects are uncertain.	The growth effect is uncertain and difficult to measure.	State institution-building may increase long-term expenditure through the need to maintain the institutions – but expenditure could also be reduced (in relative terms) due to a more effective institutional operation.
<b>Development of regional centres by improving accessibility and public transport (KÖZOP1, KÖZOP3, KÖZOP4, ROP2)</b>	The reduction in the time cost of daily commuting may result in a positive employment effect.	Physical mobility and a possible improvement in the conditions of commuting in regional centres may lead to the growth of output.	This group of measures may, through the effect of economic growth, improve the balance of public finances. Due to the operational costs, which are only partly covered by fare revenues, large-scale transport infrastructure development results in additional expenditure. In the case of Budapest's Underground Line 4, this is expected to produce an especially large increase in operational costs.
<b>Regional accessibility (KÖZOP2)</b>	The reduction in the time cost of daily commuting may result in a positive employment effect.	Physical mobility and the possible improvement in the conditions of commuting in regional centres may lead to the growth of output. The improvement in mobility in small areas may have a significant positive effect on the economic	This group of measures may improve the balance of public finances, via the effect of economic growth.

Types of measures	Employment effects	Economic growth	Effects on public finances
		growth opportunities of the given area.	
<b>Development of regions and settlements (ROP4, KMOP5)</b>	Some employment enlargement is possible as marginalized social groups become better integrated.	Improvement of investment opportunities in marginalized areas.	Effects on public finances are difficult to predict.
<b>Environmental protection programmes (KEOP1, KEOP2, KEOP3, KEOP4, KEOP5, KEOP6)</b>	No significant employment effect.	Generically non-interpretable growth effects; possibly an improvement in energy efficiency.	A healthy environment improves the quality of human capital available for the economy, and enhances the international attractiveness of a country. It may therefore lead to an improvement in the balance of public finances through additional growth effects. At the same time, however, large-scale environmental protection development projects may result in significant central budget and local government operational cost expenditure, if the consumers cannot be (or can only partly be) charged for the costs incurred. The increase in the use of renewable energy resources and a more efficient use of energy may, in the long term, indirectly improve the balance of public finances via the benefits of a sustainable energy management.
<b>Development of state administration and organizations (ÁROP1, ÁROP2, ÁROP3, EKOP1, EKOP2, EKOP3)</b>	No significant employment effect.	Uncertain, difficult to measure growth effects; EKOPs may reduce the administrative time burdens of enterprises.	Efficiency achievable in state administration may have a long-term potential operational-cost reduction effect.

**Table 2. The relationships between the measures in terms of employment and distribution effects**

Types of measures	Employment and growth effects	Social distribution effects and disadvantaged social groups
<b>Enhancement of competitiveness (GOP1, ROP1, KMOP1)</b>	There is no strong correlation between competitiveness and employment levels; with regard to short- and medium-term effects, there may even be a negative effect due to the substitution effect (unskilled work) and supply limitations (skilled work). Due to the agglomeration effects, growth is concentrated in the development poles.	Resources are spent in a territory-concentrated way; the demand for a highly qualified workforce is likely to increase.
<b>Enterprise development (GOP2)</b>	In the relationship between business competitiveness and employment levels, there may be a negative effect due to the substitution effect. At the macro-level, significant deadweight losses and crowding-out effects have to be reckoned with.	The programmes focusing on the modernization of organizational and technological structural development often end up reducing the number of jobs available, but it depends on the flexibility of the labour market whether the redundant workforce will find jobs.
<b>Business Environment Development (GOP3, KMOP2, KMOP3)</b>	This intervention may remove barriers to growth and improved local regional attractiveness could lead to an increase in employment in the tourism sector. Local regional activity, and greater tourism may have growth effects.	Increased competitiveness; prices go down.
<b>Small enterprise development, micro-programmes (GOP4)</b>	This intervention may remove barriers to growth, therefore JEREMIE-type programmes may lead to a significant boost to employment in the sector.	The improvement in the relative positions of SMEs, due to the possible enlargement of employment, may reduce inequalities.

Types of measures	Employment and growth effects	Social distribution effects and disadvantaged social groups
<b>Tourism development (ROP3)</b>	The intensification of tourism may lead to the enlargement of employment. This, however, will result different growth effects by region.	Primarily the development of already existing tourism centres, which may reinforce inequalities between settlements.
<b>Enhancement of employability (TÁMOP1)</b>	This intervention may increase job-seeking activity, while the core competences forming the basis of adult learning may improve adaptability. As the development of human capital enlarges the available workforce, the effect of this intervention may be to generate supplementary added value.	Active labour market policies are effective to a limited extent in the various labour market groups. The intervention has a long-term positive effect on disadvantaged groups, especially the disabled, the Roma and those living in deprived areas.
<b>Development of public education and life-long learning (TÁMOP2, TÁMOP3)</b>	This intervention can be expected to lessen the family, territory and school-based disadvantages that hinder the attainment of core competences. As the development of human capital enlarges the available workforce, the effect of the measure may be to generate supplementary added value.	The early accumulation of human capital increases accessibility opportunities as a short-term benefit, while, as far as long-term benefits are concerned, it increases the individual's productivity and eventually may decrease income inequalities. It is strongly concentrated in terms of generations, and vertically it may lead to a significant increase in inequalities between generations. It has a strongly positive effect on the reduction of poverty, and on the integration of the Roma and of those living in deprived areas.

Types of measures	Employment and growth effects	Social distribution effects and disadvantaged social groups
<p><b>Health promotion and social integration (TÁMOP5)</b></p>	<p>By way of the enhancement of the integration of marginalized social groups, a slight enlargement of employment (and somewhat increased economic activity) can also be expected.</p>	<p>The improvement in access opportunities and the concentration of interventions improving employability of disadvantaged groups may decrease inequalities. However, the fragmented nature of resources and excessively heterogeneous interventions may weaken this effect. In the long run, they should have a positive effect on the health of the Roma and the social integration of those living in deprived regions.</p>
<p><b>Development of the physical preconditions of human infrastructure (TIOP1, TIOP2, TIOP3, TIOP4, ROP5, KMOP4)</b></p>	<p>The direct growth and employment effect of the investments is uncertain, while the indirect effect is difficult to measure. Perhaps the agglomeration effects may intensify, and a more developed infrastructure may help the integration of marginalized social groups.</p>	<p>The accumulation of human capital is effective in the early stages of life, and the development resources spent on that increase equal opportunities long term. The effect of the development of cultural infrastructure is questionable in this respect. In the long term, the interventions may improve the position of disadvantaged persons by developing the human infrastructure dealing with their problems.</p>

Types of measures	Employment and growth effects	Social distribution effects and disadvantaged social groups
<b>Supporting of the human conditions of R&amp;D and quality training (TÁMOP4)</b>	No direct effect can be expected, while any indirect effect is uncertain.	In the case of the unskilled workforce, innovation and technological progress will most probably have a crowding-out effect. The growth in the employment level of urban-dwelling young graduates has been coupled with the broadening of inequalities. The development programmes are strongly concentrated on the young adult generations. In the long term, the interventions may improve the position of disadvantaged persons by developing the human infrastructure dealing with their problems.
<b>Development of regional centres by improving accessibility and public transport (KÖZOP1, KÖZOP3, KÖZOP4, ROP2)</b>	The reduction in the time cost of daily commuting may result in a positive employment effect, which may lead to a growth of output, especially in the regional centres.	The improvement in the accessibility of regional centres renders less developed regions more attractive for investors, while making it easier for employment seekers to take up jobs outside the underdeveloped regions.
<b>Regional accessibility (KÖZOP2)</b>	The reduction in the time cost of daily commuting may have a positive employment effect. The potential improvement in the conditions of physical mobility and the conditions of commuting may result in an increase in output in the regional centres. The improvement of mobility in small areas may exert a significant positive influence on economic development opportunities in the given area.	If the improvement in regional accessibility reduces commuting costs, migration from the area may decrease, which will result in a more moderate increase in the inequalities between settlements.

Types of measures	Employment and growth effects	Social distribution effects and disadvantaged social groups
<b>Development of regions and settlements (ROP4, KMOP5)</b>	By enhancing the integration of marginalized social groups.	The expected positive effects, namely an improvement in the quality of life, and an enlargement of employment and of the density of enterprises, may affect cities and regional centres. Long term, it assists disadvantaged groups, especially disabled people, the Roma and those living in deprived areas.
<b>Environmental protection programmes (KEOP1, KEOP2, KEOP3, KEOP4, KEOP5, KEOP6)</b>	No significant employment effect.	The distribution effects are not directly identifiable, and manifest themselves only in the long term.
<b>Development of state administration and organizations (ÁROP1, ÁROP2, ÁROP3, EKOP1, EKOP2, EKOP3)</b>	No significant employment effect.	The level and distribution of knowledge and skills necessary for using them is unequal in the population, but no significant distribution effects can be expected.

**APPENDIX: LIST OF THE OPERATIONAL PROGRAMMES ON WHICH THE EVALUATION WAS BASED AND ABBREVIATIONS USED IN THE TEXT**

In Hungarian	In English	Date/number of the version on which the evaluation was based	Abbreviation
Gazdaságfejlesztési Operatív Program	Economic Development OP	25 November 2006	GOP
Társadalmi megújulás Operatív Program	Social Renewal OP	1 December 2006	TÁMOP
Társadalmi infrastruktúra Operatív Program	Social Infrastructure OP	27 November 2006	TIOP
Közlekedés Operatív Program	Transport OP	November 2006	KÖZOP
Környezet és energia Operatív Program	Environment and Energy OP	21 November 2006	KEOP
Államreform Operatív Program	State Reform OP	Version 4.2	ÁROP
Elektronikus közigazgatás Operatív Program	Electronic Administration OP	Version 3.2	EKOP
Nyugat-dunántúli Operatív Program	West Pannon OP	December 2006	NYDOP
Közép-dunántúli Operatív Program	Central TransDanubia OP	1 December 2006	KDOP
Dél-dunántúli Operatív Program	South TransDanubia OP	30 November 2006	DDOP
Észak-magyarországi Operatív Program	North Hungary OP	1 December 2006	ÉMOP
Észak-alföldi Operatív Program	North Great Plain OP	30 November 2006	ÉAOP
Dél-alföldi Operatív Program	South Great Plain OP	24 November 2006	DAOP
Közép-magyarországi Operatív Program	Central Hungary OP	4 December 2006	KMOP