ESTABLISHING AN AGRO-INNOVATION NETWORK IN BEKES COUNTY, HUNGARY

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Abstract: Because of the transformation processes related to the membership of the European Union and the changing world economy, it is necessary to deal with such economic institutions that can strengthen the efficiency of the production and the producers’ market force. It is a known method to help the producers to form organizations, institutions. In this analysis I clarify the economic theoretical background of the role of institutions at rural development, take a closer look at the agro innovation system of Bekes county, and than I give suggestions on creating an institution network for rural development. This study summarizes the results of a former research made at the Hungarian Scientific Academy Centre of Regional Studies Great Plain Scientific Institute Department of Békéscsaba. A lot of country-wide and local experts with international experiences took part at the work, there were made plenty of interviews and hundreds of questionaries completed. The consequent result was absolutely a locally specific institution development model.

I. THE COUNTY’S INSTITUTIONAL DEFICIENCIES

The Hungarian agriculture is facing a very challenging situation. Because of the food sector and those economic branches which primarily use the natural resources (general, rural, eco, bath, horse tourism), are very tremendous employers, these sectors must be in the front of the strategy evolvement of rural development. It is very important to keep in mind that the home agriculture and forestry are connected basically to the rural space. Their role cannot be deputized at the salvation of natural environment, biodiversity, rural life, settlement conditions and the safe, home specific producing of raw materials. Analyzing the situation of agriculture we can say, that huge problems are challenging the producers, the processors, the dealers and the merchandisers.

For solving the problems it is worthy to examine the structural and institutional forms of rural economy especially when newer theories of economics are available for us. It was our main hypothesis. Many times there are producers who are oversupplied with equipments, knowledge, etc., the institutional evolvement of resource allocation and market could be an effective way of rural development too. On the Hungarian Academy of Sciences Great Plain Institute Department Békéscsaba a group of scientist with my conduction aimed at studying West European institutional models and the possibilities to adapt them to the local situation. The hundreds of questionaries, the interviews with a lot of country-wide and local experts acknowledged the reason of existence of a locally specific institution network model. (RKK, 2005)

During the years of the 1990-ies the property relations had changed completely. The large co-operatives, state farms collapsed, and a lot of small and medium sized farms appeared in addition to the large workers migration to agriculture. The former – mainly eastern – marketing connections collapsed too. The earlier organized merchandizing system
disappeared. Because of the transformation process of economy, the unemployed crowd there has been appeared new actors on market, who wanted to manage themselves on their own. They could not get property at the privatization process of food industry. The conflict of interests has been continuing between producers of raw materials and processors.

The defencelessness of the producers could have been decreased by forming associations, co-operatives. Although the political encouragement, but the legal and economic conditions was not so express, and the story of the old co-operatives was warning. The newly formed little enterprises caused over-exertion to the agro institutional system. The state organised in every county the State’s Agricultural Offices – for local implementing the legal rules – and the “village agronomist network” to give technological, marketing, financial, legal advices to the local producers. In every village there is a village agronomist, and there are some district centres in the county.

Besides the mentioned office and network, the state owned part of the institutional system there are some non governmental organisations: The local organisation of the “Country-wide Alliance of Agricultural Producers and Leaguers, Farmers’ rings, Product Boards, Chamber of Agriculture. Although the number of the small and medium sized farms were much more than the number of large enterprises, the efficiency of the little was quite lower than the large. The reasons on one hand may have been being the lack of examples. On the other hand there has appeared new actors on market to integrate the supply chains of economic branches. These new actors are usually multinational companies which are not interested in producing such public goods that would be produced by those communities which form producing, consuming, capital allocating co-operations. This process is often strengthened by oligopolies. The examples in the European Union’s countries show that by the evolvement of the institutional system it is possible to enrich the possibilities of the local economic actors mainly if they are not in the running of the multinational economic processes. (Takácsné Gy.K., Takács I., 2003; Szabó, Hadházi, Odor, 2003)

2. RURAL DEVELOPMENT AND SELF-ORGANIZATION OF FREE MARKET

The theory of the invisible hand of market – although it is a metaphor created by Adam Smith – states that market itself creates equilibrium is very popular in today’s mainstream neoclassical economics. In economics, economic equilibrium often refers to an equilibrium in a market that "clears": this is the case where a market for a product has attained the price where the amount supplied of a certain product equals the quantity demanded. However there are certain market failures, situations in which markets do not efficiently organize production or allocate goods and services to consumers. Many failures of free market are situations where market forces do not serve the perceived public interest.

Our changing production and marketing technologies, the globalisation are shortening the product life cycles and the duration of economic decision making. The rational decision making is often blocked by the lack of the proper information. (Williamson, 1985) Coase states, that there are a number of transaction costs to using the market. The cost of obtaining a good or service via the market is actually more than just the price of the good. Other costs, including search and information costs, bargaining costs, keeping trade secrets, and policing and enforcement costs, can all potentially add to the cost of procuring something with a market. (Coase, 1980)

Because of our rapidly developing civilization and economies, more and more economic externalities appear, in which the decision-maker does not bear all of the costs or reap all of the gains from his or her action. (Ardelean, Maior, 2000) In the economies of rural
spaces there are much more externalities than in the economies of the urbanized space. Let’s see the most important reasons of this!

- The possibilities (institutions) of information interchange among market actors are more limited.
- The growing competitiveness on market demands more and more developed transport and logistic capacities.
- The energy and raw material demanding less value added giving economic branches settle down in rural space.
- The innovational motivation is less for the market actors in rural space than in the urban space.
- For the rural people it is more compelling to care for natural resources (e.g.: environmental protection, catastrophe prevention)

The economic branches connected to rural space (agriculture, forestry, tourism) are depending very much on natural resources. Agricultural production is rather different from the other economic branches. The entrepreneurial capital prefers those economic branches that give a higher value added. Because of these branches are connected mainly to cities than to rural territory, only market coordination will not be quite effective at the resource allocation, and the “centre-periphery” economic separation evolves.

In Bekes county the transformation process of the so called “bank of the rural” is rather shows us the desire for competitiveness at urban space, at the urban agencies, than the decision for concentrating to the specific rural demand. The disadvantages are similar at the other sectors of economy. The actors of rural economy are in a more exposed situation at purchasing raw materials, services, merchandizing their products than the enterprises in urban densely populated area, at crowded concentrated markets. In rural economy much less selection must be enough for the buyers, because the sellers want greater profit-margin due to the higher (transaction) costs. In Bekes county the existing institutions cannot solve this problem (of higher transaction costs) of rural life, which can be acknowledged by the growing number of firms and private enterprises going to bankruptcy.

3. INSTITUTION DEVELOPMENT AND ECONOMIC POLICY

Economic life is not coordinated only by one universal institution – the market – but many institutions as well. Institutions are social structures and social mechanisms of social order and cooperation governing the behavior of individuals. (North, 1992) Institutions are identified with a social purpose and permanence, transcending individual human lives and intentions, and with the making and enforcing of rules governing cooperative human behavior. Institutional economics focuses on understanding the role of human-made institutions in shaping economic behavior and dealing with externalities.

Developing institutions is has a growing importance in the European Union’s economic policy. In the common policy on competition there can be found less and less emphasis on direct subsidies to firms, but a growing importance of evolvement of infrastructure and institutions.

The European Charter for Rural Areas of the Council of Europe mentions institutions – especially the producers’ groups – as effective instruments for rural development. (Council of Europe, 1996) The Cork Declaration contains the basis which the European Unions rural development policy is built on. These suggestions are manifested in the LEADER programme. The Cork Declaration suggests the local self-governments to develop cooperation in the fields of innovation, technology, education, common research, communication,
partnership and networking among rural communities. (Rural Europe – Future Perspectives Conference, 1996)

In Hungary within the midterm development goals for the period of 2007-2013 of the second National Development Plan there can be found the improvement of the profitability of small and medium sized enterprises, in favour of it outstanding action plan for developing business services (advisory, partner searching, direction) for small and medium sized enterprises especially for strengthening cooperation among them (forming regional, sectoral clusters; marketing, merchandizing networks). The goals of the National Development Plan has appeared in the role of the National Office of Research and Technology according to establishing regional innovation systems, clusters and international networks.

The conception on the county’s regional development of the Regional Development Council of Bekes County suggests an action programme for the “improvement of the institutional, organizational conditions of enterprises” moreover the formation of co-operatives, machine-rings. (MTA RKK ATI Békéscsabai Osztály, 1997)

4. THE SUGGESTED INNOVATION NETWORK

The consequent result of the consultations, interviews, hundreds of questionaries, the complete research of the sixteen experts is an absolutely locally specific institution development model. Below we can find the features of this planned independent institutional system.

The aim of the establishment of the innovation organization is to help the regional and rural development, the county’s enterprises connected to the agro and mainly on the natural environmental exploitation based sector. This help is rather knowledge, information than a direct payment. The county-wide innovation organization should consist of some smaller innovation centres situated close to their potential clients. As it is written in the first chapter, the non-governmental institutions in the county are not quite effective, and it is not in the main interests of the government’s institutions and officers to rise the profitability of enterprises (or at least without favouritism).

Below we can find the suggested functions to these innovation centres spaced out in the county:

• The intermediation local innovation demands towards the market actors of research and development (enterprises, agencies)
• Help the local to manage their innovation results (mediation, legal remedy)
• “knowledge centre” function (training, managing courses)
• Helping the market actors demanding or supplying technological, marketing, financial, legal, administrative services to know and find business partner
• Creating and maintaining databases for rural development (especially food sector and environmental economy)
• Intermediation role between the local clients (from the service district) and government organisations
• Giving infrastructure and advice in forming producers’ groups, organisations
• Maintaining cross border connections
• Developing the financial possibilities and background for the future of the innovation centre

The innovation centres would mainly aim the small and medium sized enterprises. Although at big companies the above mentioned functions are usually managed, using the
services of innovation centre they could more easily find business partners. Nevertheless the whole rural society could be the beneficiary of these services.

Surveyed the international experiences and local demands the innovation centres should employ 4-5 persons. It is very important to have experts in the field of agriculture, accounting, business management, rural development, European Union knowledge, foreign languages. Because of the basically agential role of these innovation centres, the personnel’s knowledge need not be perfect but branching out, and the local residence and relations are compulsory. The activity at the innovation centres in Bekes county will presumably be different due to the differences at the local economies and relations.

Parallel to the growing importance and reputation of regionalism in the European Union the role of micro regions is strengthening day by day. It is acknowledged in Hungary by adjusting the borders of the districts of village agronomists and the Chamber of Agriculture to the borders of the statistical micro regions. In the research it was found that the localization of the innovation centres should be at the centres of the county’s micro regions except two of them (Sarkadi and Békési) because there are too big distances for the possible client circle in these micro regions. In the “Sarkadi” micro region there should be a sub-centre at the settlement of “Zsadány”, and in the “Békési” micro region there should be a sub-centre at the settlement of “Gyomaendrőd”. The activities of the centres could be strengthened by network building, thus there should be a headquarter for this county-wide network. Naturally this headquarter should be in the centre of the county, in Békéscsaba.

The financing of the planned innovation organisation is very important at this atmosphere of mistrust nowadays. In certain cases it is worthy for developing and maintaining projects of the government or the local self-government to use the “Private Public Partnership” (PPP) model. This model is basically proper for big investments, when investors wants to hire out valuable assets in long term period for the government or the local self-government. Because of the costs of the planned innovation centres would come from the continuous activity, the investment – and thus the income – will be too small for the investors to finance the transaction costs. Using private capital is also disadvantageous if the innovation centres want to enter for applications.

For the financing the European Union’s LEADER+ programme is a promising possibility. (Zsarnóczai, 2003, Fehér, Zsarnóczai, 2003) This is such an initiative that wants to help rural communities to improve their welfare. It contains the instruments of the European structural policies, the protection of natural and cultural values, the inequalities caused by socio-economic disparities, fall into lineage with urban areas of rural areas. (Ángyán, 2005) The aims of the LEADER+ programme is quite similar to those suggested to the functions of the innovation centres. Although the LEADER+ programme ends at 2006, the aims based on the principle of subsidiary economy remains, and give chance for newer applications to develop further innovation institutions.

Bibliography


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