

WEST-HUNGARIAN UNIVERSITY

ISTVÁN SZÉCHENYI

MANAGEMENT AND ORGANIZATION SCIENCES DOCTORAL SCHOOL

PUBLIC ECONOMICS PROGRAMME

**The role of the European Union development  
subsidies in the operation of the non-profit  
organizations in West-Transdanubian Region**

**Doctoral (PhD) dissertation theses**

*Made by:*

Adrián Ajkay

*Supervisor:*

Dr Adél Andrassy CSc Associate professor

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**Doctoral School:** István Széchenyi Management and Organization Sciences

**Leader:** Prof. Dr. Csaba Székely DSc

**Programme:** Public Economics

**Leader:** Dr. Adél Andrásy CSc

**Supervisor:** Dr. Adél Andrásy CSc

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Signature of Supervisor Assistant

# I. Objectives and hypotheses

The purpose of the research is to review the utilization of the development subsidies in the non-profit sector. The importance of non-profit organizations has increased in the last decades in Hungary. This is the reason among others why it is vital to analyze the structures of the development resources of such organizations and the efficiency of its utilization. The author expresses criticism of the operation of non-profit organizations, as well as of the system of the development subsidies. A significant part of the 1000 billion HUF incomes flowing into the non-profit organizations comes from development subsidies. There is an evident relationship between the subsidies and organizational objectives, theoretically for one. However, the practice – that the hypotheses of the research are based on-, show different: in most of the cases, the invited subsidy objectives and tenders orient the different profit-oriented and non-profit organizations, and the subsidies are not associated with their operation objectives.

The anomaly, that is unfortunately a significance of each subsidy system, is momentous in the non-profit sector.

In this sphere, viz. the majority of incomes comes from subsidies, and within the subsidies the development subsidies are significant. The emphasized review of the non-profit sector is also justified as the subsidy systems usually provide higher subsidy intensity- alluding to having lower resources-, than in the cases of the profit-oriented organizations, so the public finance is more significant. The more significant subsidies in the ratio get to non-profit organizations in favour of realizing different social purposes. In contrast, there are no efficient methods to the specific impact analyses for the development subsidies in the non-profit sector. In regard of the European Union subsidies there are measurements concerning mechanic and mainly output indicators, although a deeper and complex analysis of the output and result indicators is missing.

The topic of the research is considered novel and current as the tender and subsidy system that is continuously changing is right at structure changes. According to the author, -based on the intentions of the present economy management-, the present research recommendations will be considered when reforming the subsidy system significantly by 2011.

The practical utilization of the research results is also promoted, as since the beginning of the research the partial results have been conciliated many times with dominant participants of the subsidy system and with Contributor Organizations. i.e.: the National Development Agency,

the West-Transdanubian Regional Development Agency, the Agricultural and Agriculture and Rural Development Office, the Subsidy Arrangement Institute of the Ministry of Education and the West-Transdanubian Regional Innovation Agency.

## **I.1. The aim of the research**

The aim of the research is to reveal the connection between the operation of the non-profit organizations and the applied subsidies. First, the review of the subsidy system was carried out in the view of the non-profit sector. To make the non-profit organizations more effective and make their financing more direct, analysing the effect of their so far utilized subsidies is essential in the reflection of social and organizational objectives, then to compare them with the subsidy system operation. During the survey of the non-profit organizations, the revealed coherences –referring to the tender and subsidy systems – distinctly, but can be applied to the processes of the profit oriented organizations and the local governmental subsidies as well. Thus, the findings can be used in regard of the complete tender system.

The author, unconventionally, tries to give a complex picture of the development tenders and subsidies from a new aspect, concerning one of the most critical sectors, the non-profit sector, geographically in regard of the West-Transdanubian Region, and restricted in the time of the course of 1st National Development Plan and its subsidies.

The exact aim of the author is to observe the tender activity, efficiency and the subsidy utilization effect of the non-profit organizations in the West- Transdanubian Region in compared with the national average and the different regions in the country. The scientific work is not only significant because there has not been carried out similar analyzing so far, but also because database from more resources had to be connected as well as the figural results of personal interviews.

The research will achieve its real goal, if the elaborated recommendations based on the written scientific and theoretical concatenations infiltrate into the principles of the new subsidy system being formed.

## I.2. Hypotheses

- The factual significance of non-profit organizations and the measure of its economic seriousness is lacking in the West-Transdanubian Region, so there is no useful information about the ongoing procedures. Based on the available official data it is necessary to prepare this gap filling analysis, as without this basis it is possible to estimate the expediency of subsidies neither on a micro level nor regionally.
- Utilizing the development subsidies is getting a more and more significant factor of operating and financing the non-profit organizations. This is a very important hypothesis in the point of the research topic, since it would be a fundamental consequence of the dynamic growth of the EU resources. Analyzing the existing data is only provided indirectly, so this raising can only be testified based on statistics analyses.
- Although the survey in regional aspect- due to methodical views- targets the West-Transdanubian Region, in the point of the final consequences, it has countrywide significance by all means, as the subsidy system has regional specification only in its form and nomenclature. Viz., although regional operative programmes do exist, they are totally the minimally modified versions per regions of the countrywide subsidy system. Considering further hypotheses, the author's basic assumption is that among the income of the non-profit organizations in the West-Transdanubian Region we can find tender resources approximate to the countrywide average.
- On the basis of the author's earlier practical experience and the scientific analyses made on behalf of the Subsidy Operator Directory of the Ministry of Education, one of the basic hypotheses of the research is that most of the tender subsidies do not reach the target groups. viz., among the non-profit organizations, the ones having higher operating income, capital, human resource and relevant experience achieve more tender subsidies pro rata, than the smaller ones that are 'more indigent'. During the secondary and primer surveys, the author is looking for the answer to certify the above-mentioned context specifically on how the endowments of the non-profit organizations applying successfully for the 1<sup>st</sup> National Development Plan tenders differ from the average.

- However, there was a possibility to certify another assumption in connection with the first hypothesis: there are several non-profit organizations where the EU resources exceed 50% of their income. Among these organizations there are many that do not have profound operating experience, much rather they only have knowledge in tender writing, project management and relevant human resources. The scientific certification of the latter view is remarkable because proving the existence of this kind of ‘supplies hunting’-like anomaly despite its small proportion, can cause significant damage in judging the subsidy system.
  
- Considering that in the last years, it has been possible to obtain more and more significant amount of non-refundable subsidies—mainly from the EU -, it is advisable to examine, how the utilization of the subsidies influences the operation of the non-profit organizations. Furthermore, it is vital to see the organizations income and outcome balance and the human resource endowment. Demonstrating the hypothesis, the author had observed the changes of the human resources at the supported non-profit organizations, more specifically if the growing revenues due to the increasing amount of subsidies accompany with growing employment in the short-, and middle term. Raising the employment is one of the main declared aims of the subsidies; therefore analysing this effect indicator has been chosen.

## **II. Research context, method and justification**

After presenting the hypotheses and the methodical dilemmas of the research the author fully reveals the current procedures, situation and significance of the non-profit sector, mainly in the West-Transdanubean Region. He attaches importance – based on scientific researches -, to shed light on the legal terms of the sector operation, the background of the specific questions related to the organization registers, data sources and data processing.

The development of the domestic non-profit sector can only be interpreted impartially in the international comparison, thus great emphasis has been laid on this. As the survey observes the subsidy utilization effect of the non-profit organizations in the West-Transdanubean Region basically, the differences according to the geographical scope of the organizational form are shown compared to the countrywide average.

The economic importance of the non-profit sector, the activity of the organizations, the income formation, the availability of the human resources have all profound importance in the course of the scientific secondary researches.

Considering, that the aim of the research is to observe the development subsidy utilization in regard of the non-profit sector in the West-Transdanubean region, analyzing the tender system, the subject of the research, is superfluous. As the majority of the subsidies available in the time of the questioned term were based on the resources of the 1<sup>st</sup> National Development Plan for the non-profit organizations, -for the sake of the unambiguous determination of the effect analyses inputs- such types of subsidies are being analyzed exclusively. Thus, the author does not observe the effects of the utilization of the domestic resources or the cross-border programmes for instance.

The details of the primer research of the data resource, methods and results based on the statistic questionnaires and deep interviews of all the non-profit organizations in the Region mean possibly the most important findings of the dissertation, the scientific verification of the hypotheses. In these chapters, databases of different data resources are connected, and the majority of the research results have been crystallized in the course of statistic analyses.

During the research, it is introduced how subsidies won through the 1<sup>st</sup> National Development Plan tenders influence the management, the employment characteristics and operation of the organizations.

The partial results of the research are stated at the end of the chapters, while the author renders a separate chapter for the findings, conclusions and recommendations.

## **II.1. The methodology of the research**

The exact impoundment of the research topic, so choosing the appropriate research methods and fine-tuning can be stated as the final result of a developing process. A few years ago, a complex efficiency analysis of the European Union resource utilization for the local authorities seemed to be worth besides the non-profit sector, as the operation of the Single Monitoring Information System (SMIS) that monitored the tenders was far from the optimal. Unfortunately, the SMIS still cannot fulfil its duty as monitoring the subsidy effects; however, besides the Contributor Organizations and Directing Authorities more researchers have set an aim to analyze and develop the system. Studies that are more significant have become known in the topic that have dealt the subsidy systems with appropriate complexity, but unfortunately have made no statements regarding a specific tender target groups. Analyzing each of the parts of the complete subsidy structure- that involves more subsystems and independent “small systems” operating isolate- obviously exceeds the periods, human resource and financial frames. A scientific analysis of a significant target group, which can have direct practical results, and as a multiplier has a positive effect on the development of the whole system, can serve as a topic of the PhD programme.

There was a need to change the methodology of the exact research topic many times, due to the limited availability of the statistic data. In the course of forming the methodology, the author paid maximal attention to compare the information of the secondary research with the findings of the primer observation. In the course of the research-in view of the relatively big number of target groups and the low efficiency of the questionnaires- he cooperated with the Central Statistics Office, so he could do his research based on the compulsory questionnaire data supply of the non-profit organizations, by analyzing the data of the submitted questionnaires. Besides, personal interviews were also made as a counter-test of the scientific results.

Considering, that the research focused on the West-Transdanubean Region, the author proposed several professional conciliations with the regional Contributor Organizations to become acquainted with the relevant tender experience.

As a methodical issue -following the preliminary database analyses - before starting the research the assay’s time interval had been determined. Since the realization of the different subsidised projects are realized years after the decision for subsidizing are made, and years after the subsidy transfer, or as in the case of the effect analyses monitoring the sustenance



term is also essential, programmes completed 5-6 years earlier can be analyzed. The 1<sup>st</sup> National Development Plan is the system of the European Union programmes and tenders launched between 2004 and 2006 that output effects have already appeared in the accessible questionnaires, data series, and the review of the short-, middle-term effects can be successful. Consequently, the time interval of the research was positioned in the course of the 1<sup>st</sup> National Development Plan realization, between the timeframes determined by the subsidy decisions made between 2004 and 2006. However, there are cases when the project realization is postponed for more years after the subsidy decision was made, due to individual decisions. The author states these methodological anomalies at the given topics, as well as stating the neutralizing methods.

When building up the dissertation, the author follows the principle to detail the analyzing methods and background, or the relevant data resources or their absence at the particular topics continuously.

He intends to be objective when certifying his hypotheses scientifically, choosing the best analyzing method presumed. These methods are decisively statistical, but in some cases, an empiric approach is inevitable.

The author supported his research findings with deep interviews given by representatives of three non-profit organizations, operating on different fields and having different circumstances.

### **III. Research results - new scientific findings**

Part of the conclusions of the research can relatively be certified easily, as in the next programming cycle, in the New Hungary Development Plan (NHDP) tender system, many changes are the results of the critics made about the earlier tender system. This is however only true for a small part of the statements, since planning of the NHDP was already in progress in 2006 before closing the NDP I. Accordingly, the following new research findings are still current, what is more they can be taken into account possibly at the time of establishing the tender system of the next programming cycles the sooner.

The author analyzed the research findings in the system of the hypotheses:

- The detailed, comparative analysis of the economic weight of the non-profit organizations was completed concerning the West-Transdanubian Region, as an establishing research for the sake of the adaptability of the planned method. On the grounds of the accessible legal data, a gap filling analysis –that can be used in other region development topic-was completed; on which basis measuring the subsidy utilization became possible on regional level.
- During the research it was proved, that the requisition of the development subsidies has become a more significant factor of the non-profit organization operation and funding. As it was already raised among the methodological issues, it is remarkable that the analyse of the existing data series gives only indirect possibility in the view of the hypothesis research, as a consequence this assumption can only be proved based on statistics analyses. The analyses however show that the development subsidies have an exceptionally hectic appearance in the funding of the non-profit organization operation, so they can generate liquidation problems. The latter statement became certain as a result of the personal interviews.
- Proving the hypothesis that states that among the income of the non-profit organizations in the West-Transdanubian Region we can find tender resources approximate to the countrywide average is methodically significant. With this

statement, the findings of the regional research practically became extensible to other regions of the country, or even to a countrywide level.

- On the basis of the detailed analysis it was proved that among the non-profit organizations, the ones having higher operating income, capital, human resource and relevant experience achieve more tender subsidies pro rata, than the smaller ones that are 'more indigent'. During the secondary and primer surveys, it was certified that the endowments of the non-profit organizations that successfully achieved the 1<sup>st</sup> National Development Plan tenders differ from the average, mainly in regard to their capital power and experience. It could not be proved however- and neither belongs specifically to the topic of the research- that subsidies result in a greater benefit if given mainly to smaller non-profit organizations opposite the present practice. The tender findings of the New Hungary Development Plan are known only partially (according to the tender decisions 50-60% of the resources for the 2007-2013 programming cycle have been engaged so far) but it can be seen that the rates have not changed profoundly.
  
- In the course of the analyses however, it was possible to certify another assumption in connection with the first hypothesis: there are several non-profit organizations where the EU resources exceed 50% of their income. Among these organizations there are many that do not have profound operating experience, much rather they only have knowledge in tender writing, project management and relevant human resources. The scientific certification of the latter view -as it was proved during the personal interviews-is not possible at all on a micro level, since due to the significant conflict interests the project owner non-profit organizations were unwilling to provide useful information about it. Nevertheless, according to the author the 'supplies-hunting'-like anomaly is present at the non-profit organizations tender practice (as well as at other types of organizations too) but it cannot be scientifically proved because of its characters.
  
- The author observed in details how the utilization of the subsidies influences the operation of the non-profit organizations. He analyzed the incomes and outcomes of the organizations as well as their human resource endowments. To prove the

hypothesis he evaluated the changes in human resource of the subsidized non-profit organizations.

It was proved - although besides applying the optimal methodology, there were still a lot of uncertain factors -, that the growing revenues due to the increasing amount of subsidies accompany with growing employment in the short-term by all means, and – taking more uncertain factors and higher margin of errors into consideration-, in the middle-term as well. One of the most important declared aims of the subsidies is to increase the employment; therefore, the certified increase of this effect indicator is essential. It arose from a scientific aspect that it would be worth comparing the actual schedules of the employment increase – as result of the subsidies-, with the optimal theoretically accessible schedule.

## IV. Conclusions and recommendations

According to the author, a scientific work can only be successful if it has direct or indirect practical significance and subservience. He chose the analyze of the development subsidies as the major topic of his research as – as far as he is concerned - no scientifically thorough analysis has been carried out, regarding one sector regionally. Although almost every expert concerned felt and knew that there were numerous problems and absence the tender system, based on the 1<sup>st</sup> national European Union subsidies, the NDP. A number of comprehensive analyses, macro modelling have been prepared concerning the topic, -however, not for the West-Transdanubean non-profit sector-, that utilization is questioned by the high statistical error margins following from the numerous basic assumptions.

As for the research methodology, the author has chosen neither macro nor micro but rather –a novelty valued- intermediate analyzing method. As according to his views, the wide error interval resulting from the great amount of research condition estimation can be eliminated; or due to the characteristics of the topic, there are fields that cannot be expressed in numbers with conventional statistics methods at all.

The present work - derived from its genre - is much rather academic than an operative manual, so the recommendations are basically strategic, and more specifications and timings are needed to make particular steps. Following, strategic recommendations are introduced for the currently existing problems, the ones that have been eliminated in the New Hungary Development Plan in progress are not mentioned.

- Comparing the number and the economic weight or the volume of the gained subsidies of the non-profit organizations with other types of organizations (local governments, entrepreneurs) in the West-Transdanubean Region it can be stated, that the non-profit organizations obtained disproportionally less development resource during the 1<sup>st</sup> National Development Plan.

The author's recommendation is to eliminate this disproportion by the appropriate allocation of the subsidy resources at the time of planning the next term subsidy mechanism.

- In the course of the research, it was proved that the bigger non-profit organizations that have higher capital, human resource and relevant experience are disproportionally more successful at winning subsidies than the smaller ones or the starters. There can

be more reasons for this. Primarily it alludes to the fact that the line up and compensatory effect of the subsidies operates on much less effectively than expected, as the majority of the subsidies are won by the non-profit organizations having bigger capacity and capital anyway, so the smaller ones cannot develop. In most of the cases this can be traced back to the practical reason that smaller non-profit organizations have more significant part of tender-writing and project preparation expenses, so they are less bearable.

In the case of bigger organizations the more profound relational capital and experience stands as an advantage as well.

It would be practical to reform the tender conditions in the next programming period in favour of giving a chance to the smaller organizations besides determining the minimum quality criteria. This however cannot happen on the account of the project quality, so one solution can be to chisel the tender notices, that is, there should be smaller tenders for smaller organizations and no bigger organizations could apply for them, and there should be bigger subsidies for bigger organizations requiring bigger own resource fund and higher requirements.

The appropriate operative adaption of the author is also vital, as in the course of the research a ‘suspicion’ has emerged that some non-profit organizations were specifically set up to win subsidies and gain profit. These cases – that cannot be proven exactly-, can cause severe damage on the reputation of the subsidy system as well as causing financial damage.

- The sum of subsidies won by the non-profit organizations is profoundly different in the different regions, primarily concerning the capital city, but also among the Regions as well.

Regarding that one of the essential aims of the development subsidies is to equalize region development and moderate the differences reforming the tender system is accordingly important.

- The recommendation to decrease the tender bureaucracy arises at almost all professional forums. Its significance is that the expense rate of technical assistance would moderate within the whole subsidy system, and presumably, the expenses of the project preparations would go down as well. In favour of decreasing the tender bureaucracy- and from environmental and public views- it is inevitable to digitalize the processes and dataflow from the beginning of the tender invitation through the tender submit to the project accounts until the final communiqué.

- Directly the different tender organizational levels should be connected besides the categorically selecting the tasks. The cooperation of the Managing Authorities and the Intermediate Bodies is essential, the task selection however has not been carried out comprehensively in the course of the NDP I.
- In the course of utilizing the increasing amount of subsidy sums, achieving positive economic effects are the basic expectations. However, different indicators at different tender types and applying circles could measure this. The effect measurement and the feedback is probably one of the most important processes of the subsidy system. In the NDP I adopting this indicator system was not consequent in many cases. In the next programming period it is advisable to put more emphasize on the optimal work out of the input-output-result-effect indicator system, as this could make the subsidy utilization more efficient.

## V. Publications of the author related to the dissertation topic

### Publications in Hungarian in lectured scientific journals and volumes

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### **Hungarian presentation**

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